THE POLITICS OF HIGHER EDUCATION: A CASE STUDY OF THE ILLINOIS COLLEGE SAVINGS BOND PROGRAM

By

KRISTINE K. MACKEY

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To Helen C. Kiefer,

the politician,

and

To Eliot Staples,

the educator

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Kristine K. Mackey

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In the mid-1980s students were finding it increasingly difficult to gain access to higher education. The cost of college rose; student financial aid decreased. Simultaneously, student indebtedness increased, and the level of parental savings for college costs decreased. Encouraging families to save for college and providing incentives for them to save were identified as possible solutions to these growing problems.

As state legislatures and the federal Congress studied the problem and the possibility of state and federal intervention, one state took action. Illinois leaders drafted bills to address the problem and ultimately passed legislation which authorized the Illinois College Savings Bond Program.

The purpose of this study was to analyze the process by which the Illinois College Savings Bond Program was created, and to assess the effectiveness of that program in addressing the problems of higher education affordability.

Data were collected via systematic interview with identified key contacts involved in the development of the program, via document review and direct observation of events related to the development of this program. A separate study of Illinois College Savings Bond purchasers was also conducted as a subunit of the larger study.

The Illinois College Savings Bond program was conceptualized initially by public sector higher education officials and government leaders, but the responsibility for the development and implementation of the program soon shifted to private sector financial community leaders. The policy objectives of those people differed, and those differences had an impact on program design. Middle-income citizens for whom the plan was designed proved not to be the primary purchasers of Illinois College Savings Bonds.

CHAPTER 1
INTRODUCTION

The Problems

Rising College Costs

In a 1986 study conducted by the American Council on Education (ACE), researchers published four relevant findings: (a) that tuition had risen rapidly in the 1980s and was continuing to rise, (b) that recent tuition increases had not been limited to private institutions but had affected almost all institutions, (c) that the tuition increases of the 1980s had out paced inflation whereas those of the 1970s had lagged behind, and (d) that the relationship between measures of growth such as family income and tuition increases had not remained constant (American Council on Education, 1985). This in-depth study corroborated what researchers had found in similar studies at local levels, and what others in education had concluded (National Institute of Independent Colleges and Universities, 1984). In an Illinois study, researchers found that student cost trends both in state and private colleges and universities, measured in current and constant dollars, increased precipitously between fiscal

years 1974 and 1986. These cost increases were significantly higher than the rate of inflation over that same period (Illinois Board of Higher Education, 1987a).

During a 1987 keynote speech, Frank Newman, President of the Education Commission of the States, told his colleagues that "greed is not a major factor in recent cost increases, indeed faculty salaries needed to be increased and the cost of sophisticated technology is warranted. Faculty salaries must rise, and college costs must be addressed" (Newman, 1987, p. 13).

Decreasing Financial Aid Dollars

At the same time that college costs were rising, there was a decline in available student financial aid (College Entrance Examination Board [CEEB], 1986). Student aid between 1980 and 1986 had an apparent increase of 23%. However, inflation adjustment of that increase redefined it as a 3% decrease in constant dollars. Although the number of Guaranteed Student Loans (GSL) and Parents' Loans to Undergraduate Students (PLUS) grew slightly, the number of Pell Grant recipients declined. However, when adjusted for inflation, the purchasing power of those loan dollars and grant dollars actually decreased (CEEB, 1986). Using the College Board data and additional data which they had collected, analysts at Coopers and Lybrand Accounting Firm (1987) estimated that the purchasing power of federal student aid expenditures

declined by more than 25% during the 1980s. In Illinois a decrease in state financial aid dollars accompanied the decrease in federal financial aid. The number of state grant recipients increased in Illinois, but total grant dollars and the award amounts decreased over that same period of time (Illinois Board of Higher Education, 1987a). In truth, Illinois was distributing fewer constant dollars via the state grants to a greater number of students. Furthermore, financial aid experts from the College Board suggested that the Gramm-Rudman-Hollings deficit reduction legislation passed in 1986 would significantly reduce the amount of money available for all federal student aid programs in the future. The decline in financial aid dollars was also felt at the state level. In 1987, a proposed tax increase for education, supported by the Governor, was defeated. Consequently, financial aid experts in Illinois anticipated even more serious reductions in Illinois state student aid programs as well.

Rising Student Indebtedness

As college costs rose in the 1980s, so did average student indebtedness. Increased student borrowing was not only a result of increased costs, but of the shift in federal and state financial aid programs from grant and scholarship aid to loan aid. In a report prepared for the U.S. Congress, an analyst showed that student debt had quintupled in the 1980s (Hansen, 1987). Other researchers

found that student debt had tripled between 1974 and 1985 (Carnegie Forum on Education, 1986). Educators and policy analysts were divided as to whether student indebtedness was a serious problem. Those who analyzed the financial aid decline foresaw a host of future problems: Access to higher education could be limited, especially for lower-income students who feel unable to take on such a debt, and increased indebtedness could limit a student's ability to make career choices freely. Analysts noted these problems were not neutral in their effects on different racial and socioeconomic groups because of the continuing disparity in post-college income between white males on one hand and females or minorities on the other. In addition, student debt obligations could become more onerous than students would understand at age 18, consequently students' future economic well-being could be jeopardized.

Middle-Income Family Squeeze

A major effect of rising college costs, decreased financial aid, and rising student indebtedness in the 1980s was the increasing inability of middle-income families to pay for college. Although there is no exact definition of the term "middle-income," for the purposes of this study, it was defined as a family with an adjusted gross income of $20,000 to $35,000. In 1986, the median income for a family of four in the United States was

$27,500 (U.S. Department of Commerce, 1986). Families with incomes in the $20,000 to $35,000 range comprised 22% of the U.S. population in that same year (U.S. Department of Commerce, 1986).

In a study prepared for the American Council on Education (1985), Hexter and Miller found that middle-income families relied primarily on their own resources to pay for college. The assistance that middle-income families received was in the form of loans and work-study. Once a family's income exceeded $25,000, a student's probability of receiving financial aid, especially grant support, declined sharply. Middle-income students qualified for fewer financial aid dollars and were paying more of the real costs of college. Hexter and Miller concluded that "middle-income squeeze" was threatening the future ability of middle-income families to gain access to higher education.

The inability of middle-income families to pay for college has been complicated by the fact that the same families have saved less overall than their counterparts did in the previous decade. Evidence of this change in a saving pattern has come from a number of sources (National Association of Independent Colleges and Universities, 1987; U.S. Department of Education, 1983).

The problems of rising college costs, decreased student financial aid, increased student debt burden,

decreased parental savings, and growing inability of middle-income families to pay for higher education have captured the attention of the higher education community. Don Stewart, President of the College Board, in a speech related to these topics said, "There appears to be an imminent affordability crisis in higher education" (1987, p. 1).

Responses to the Problems

Between 1985 and 1987 programs designed to encourage families to save for college were introduced in state legislatures across the country. These programs were a popular response to the affordability crisis and received a great deal of publicity during this period of time. An effort to guarantee American families financial access to higher education was the central theme behind the growing number of prepaid tuition and college savings plans that emerged. Although these new programs, which are described in subsequent portions of this report, began to take on a life of their own, they were conceived in response to the affordability crisis in higher education.

Prepaid Tuition Program

Prepaid tuition programs may be administered by a private institution or by a state. Such programs offer families the opportunity to prepurchase future tuition at current tuition prices. The institution or state that sells the tuition assumes the risk that the funds will be

invested prudently and will grow as rapidly as tuition costs. Specific features of these plans differ. Some include only the cost of tuition; others include room and board. Some require a minimum investment, and others allow for periodic payments. Earnings from prepaid tuition investments are not exempt from federal tax, though most programs administered by a state are exempt from state taxes.

There are many advantages for purchasers of prepaid tuition programs, for the state, and for the colleges and universities. If the pool of prepaid tuition purchasers in a program is large enough, then the fund managers will be able to diversify investments, thereby protecting them in ways that the individual investor could not. Unlike the proceeds from traditional savings plans, the earnings from prepurchasing a commodity such as tuition are not fully taxed. This tax benefit encourages families to save during a time when the U.S. tax system is structured in a way that discourages traditional saving.

A major benefit to families who participate in these programs is the lack of investment risk. They are guaranteed that their child's tuition will be paid in full whether or not tuition costs exceed the return on their invested funds. An advantage to the state is that prepaid tuition plans, unlike other financial aid programs, require no initial state subsidy. Furthermore, if the

number of families paying for college without other forms of state aid increases, then it is possible that future state assistance programs may be directed more specifically to lower-income families.

Prepaid tuition programs have some disadvantages. The two major disadvantages are the limitations placed on college choice and the investment risk assumed by the state or the institution administering the program. These programs guarantee a future college education at a particular institution or in a particular state at a particular price. Some students, whose families have prepaid tuition costs, may not be academically suited for the particular institution(s) for which the tuition was guaranteed. This situation poses problems for the future student as well as for the particular institution. If the return on the invested funds does not keep pace with faculty salaries or with other costs of the college education, then it is the state or institution administering the program that must subsidize those future costs. The advantage of no investment risk for the family is the major disadvantage for the state or institution that must assume 100% of the investment risk.

Administrators at a private institution began the first program of prepaid tuition. In 1985 Duquesne University, Pennsylvania, offered a program that allowed parents to pay their children's future tuition costs at

present-day prices. The plan encouraged parents to save and also insured that today's investment would yield enough return to purchase college tuition at Duquesne tomorrow (National Association of College and University Business Officers, 1986). The advantages of the Duquesne program were obvious and the plan received wide publicity. The problem, not obvious at the onset, was that college choice for the beneficiary was eliminated. Further, there was no assurance that the return on investment of the monies would keep pace with the cost of an education at Duquesne. Duquesne suspended the program in March, 1988. By that time, approximately 600 families had participated in that program (Michalak, 1988).

Another early prepaid tuition program, written in November of 1985, was the State of Wyoming's Prepaid Tuition Program. That program passed the state legislature in February of 1987. The Wyoming plan was similar to Duquesne's program, and within a year approximately 600 families had subscribed. Recently, Wyoming also discontinued their prepaid tuition program. Officials for the Wyoming and Duquesne programs said that one reason for implementing those prepaid tuition programs was to increase and guarantee future enrollment and to market their respective institutions. Duquesne's program initially targeted only their alumnae as part of a development campaign and later opened the program to

others. Wyoming was addressing the problem of student exportation to other states. Offering middle-income families greater financial access to higher education was not the only goal of these two programs.

Perhaps the most highly publicized prepaid tuition program was developed by the state of Michigan. In his 1986 state of the state address Governor Blanchard proposed a "first-of-its-kind-program," a tuition guarantee plan he called the Baccalaureate Education Student Trust (BEST) (Michigan House of Representatives, 1986). The implementation of that program and the other state prepaid tuition programs that followed was delayed until 1988 because of questions regarding tax-exemptions for the purchasers. Despite an unfavorable ruling by the Internal Revenue Service, the Michigan program was implemented in 1988. Richard Anderson (1986b), a leading authority on tuition savings plans, said "I continue to have fun with tuition plans in different states. But none matches Michigan for its lightning speed. Whoosh . . . and there's a law" (p. 1). His comment may characterize not only Michigan's eagerness to institute a prepaid tuition plan but also that of the state's eagerness to study, introduce, and legislate similar plans.

National interest in prepaid tuition programs grew between 1986 and early 1988. While Michigan's program was in the limelight, seven other states were considering

similar legislation, and 26 states had prepaid tuition bills before their legislatures (Education Commission of the States, 1987). Educational consortiums and professional organizations produced reports (Brookings Institution, 1986; National Association of College and University Business Officers, 1986; National Association of Independent Colleges and Universities, 1987; Raskind, 1987) and held conferences on the topic (CEEB, 1987; Education Commission of the States, 1987). Private sector financial institutions produced papers and also marketed investment vehicles as "college savings plans" (Coopers and Lybrand Accounting Firm, 1987; Nuveen Research, 1988). The number of studies and reports illustrates the interest that was generated on this topic over a relatively short period of time.

College Savings Bond Programs

Although prepaid tuition plans were receiving most of the attention, some states were considering alternative approaches. The college savings bond approach was different from the prepaid tuition plans in significant ways. The primary difference was that savings bond plans placed less financial risk on the state and more on the purchaser than the prepaid tuition plans. The savings bond plans were not offered by individual institutions but rather by states. A college savings bond plan is currently being considered by the U.S. Congress as well.

The college savings bond plans have linked the purchaser's investment to municipal bonds sold by the state. These bonds, sold periodically, are designed to generate income for the state but are designed for sale to individual investors rather than to large investors. Municipal bonds, by law, are tax exempt. Consequently, the college savings bond plans guaranteed tax-exemption at a time when the prepaid tuition plans could not yet be implemented pending IRS rulings on tax-exemption. The advantages were similar to the advantages of the prepaid tuition plans. Saving for college would be encouraged, and a certain return on investment could be guaranteed to the purchaser. However, there would be no guarantee to the purchaser that the return on these investments would keep pace with the rising cost of a college education. The investment risk in this program was less for the state than in the prepaid tuition program and was considered a shared risk for the state and the purchaser. College savings bond plans appeared more flexible than the prepaid tuition plans. If a purchaser encountered financial difficulty or for some reason, such as the death of a child, and no longer needed the prepaid tuition plan, redemption was not a problem. With the college savings bond plan the bonds could be sold secondarily, which is common practice in the bond market. Finally, a college savings bond plan did not limit future college choice

because the investment would be redeemed for cash, rather than for a commodity, which could be used for college costs at any institution in any state.

Administration of these bond programs appeared to be easier for the state than administration of a prepaid tuition program because the structure for the sale of municipal bonds was already in place. Consequently, the set up costs for savings bond programs were low. Like prepaid tuition plans, wide participation in a college savings bond program potentially could increase the future state aid available for students in lower income brackets. College savings bond plans contained most of the advantages of prepaid tuition plans but appeared to have fewer disadvantages for the purchaser, for the state, and for the higher education community. Table 1 below outlines the differences between prepaid tuition plans and college savings bond plans (Illinois Board of Higher Education, 1987a).

On September 7, 1987, Illinois enacted the first state legislation authorizing a college savings bond program (State of Illinois, 1987a). One year later North Carolina and Connecticut passed similar legislation. In January of 1988, Illinois was the first state to sell the college bonds, thus implementing this new program. To date, 19 states have approved college savings bond programs. Twelve of those states have implemented those

Table 1

Comparison of College Savings Bond Plans and Prepaid Tuition Plans

College Savings Bond Plans	Prepaid Tuition Plans
Administrative Structure:	
No new structure required; use of existing underwriting group; market focus redirected through same marketing subcontractor	A state agency, board, or authority necessary
Incentives:	
Currently exempt from state and federal taxes; additional bonus payment at redemption (if used for college) issued in most states	Could be exempt from federal taxes in future; tax-exempt in most states
Flexibility:	
Usable for college costs anywhere; usable for non-college savings; not liquid, but possibly marketable in secondary market	Usable only at college(s) specified; not usable as non-college savings; not liquid
Investment Risk:	
Individual assumes primary risk; bonds may, may not keep pace with tuition inflation; interest is fixed	State assumes primary risk; investments may or may not keep pace with tuition inflation
Cost:	
Minimally above costs of usual sale of these municipal bonds	Significant

programs (Education Commission of the States, 1988). A complete list of states and the status of their action on these plans are listed in Appendix A.

Purpose of the Study

In the two-year period between 1986 and 1988, many people with expertise in education, finance, and public policy studied the feasibility of prepaid tuition plans and college savings bond plans. During that same time period, legislative leaders introduced and passed legislation authorizing prepaid tuition plans and college savings bond plans. Many states considered legislation, and a few programs were implemented. No programs have been studied post implementation.

The case of the Illinois College Savings Bond Program is the subject of this case study. The study was intended to describe and document the relationship between legislative process and public policy as it relates to a unique educational issue.

Research Questions

The questions for study were the following:

1. Who were the principal decision makers, and how did they influence the process by which the Illinois College Savings Bond Program became law?
2. What were the principal decision makers' different policy objectives, and how were those differences resolved?

3. What was the outcome of the first bond sale in Illinois?
4. How did those different policy objectives affect the outcome of the first bond sale in Illinois?
5. Can this program, and the process by which it came into being, serve as a model for other states?

Study Design

The case study design for this research was chosen because the study questions and the subject met four criteria for selection of this design (Yin, 1984). First, the researcher had no control over any of the events under study. Second, the questions focused on contemporary events in a specific context. Although some of the events were historical, they did not represent "dead history" (Yin, 1981). Relevant persons were still alive, and many were still working with the program and were willing to discuss their goals and experiences. Although the researcher employed many of the same techniques used in historical research, two other sources of evidence, direct observation and systematic interviewing, were also employed. The availability of multiple sources of evidence made a case study design both desirable and feasible.

An embedded single-case design was chosen over a multiple-case design for two reasons (Yin, 1984). First, the events of the Illinois case contain subunits (individuals and organizations) that needed to be studied separately but understood in their larger context. Second, neither these embedded studies nor the larger study are replicable. The political climate in Illinois, the principal participants, and the character of organizations central to the case were unique. (In the future, if other states implement similar programs, a multiple-case study may complement this single-case study. The findings of this study will be invaluable to any multiple-case study that might be done in the future.)

Techniques for the collection and validation of data collection used in this study were based on principles described by historical methodologists (Barzun & Graff, 1977; Gottschalk, 1968) in the case of document review, and by fieldwork methodologists (Fiedler, 1978; Murphy, 1980; Spradley, 1979) in the case of interview and observation.

Methodology

Initially, the plan for this study was to identify, interview, and analyze the comments of key contacts. Key contacts would be those people heavily involved in the conceptualization and implementation of a prepaid tuition or college savings plan in Illinois. Interviews would

take place periodically throughout the process, although that timeline was expected to evolve as events occurred. At some point the need to add people to the list of key contacts was apparent. As the savings plan developed, new players emerged and additional key contacts were identified. Though some key contacts' involvement diminished during the life of the study, they were not dropped from the interview process; rather, new key contacts were added. The highly sensitive nature of state government and politics prohibited this researcher from publicly identifying those key contacts, but a general description follows:

1. two aides to the Governor;
2. three state legislators involved in higher education issues;
3. three state legislators not involved in this particular issue but well placed politically;
4. four state higher education officials;
5. one university president;
6. one community college president;
7. one student cognizant of the issue;
8. three aides to the legislative staff that specialized in educational issues;
9. one bank executive not involved in this issue directly, but involved indirectly;
10. one bank executive involved in this issue;

11. one business owner indirectly involved in this issue;

12. one other person involved in this issue.

The key contacts numbered over 20 throughout the life of the study, and no less than four interviews were conducted with most of those people. Additionally, other people (non-key contacts) were interviewed in order to corroborate specific details. Approximately 16 interviews of that type were conducted. All interviewees were told that their comments might be generally used for the purpose of this dissertation and also told that they would not be named or quoted. In some instances, it was necessary to have the interviewer referred to the interviewee through a reputable third party. For example, in the case of the legislators, one noninvolved legislator referred the interviewer and vouched for the reputation of that interviewer. Without some of these third-party referrals, many interviews would not have been possible. Interviews were conducted at a variety of sites chosen to accommodate the interviewees.

All interviews began with an open-ended question, related to the first study question, which was "Who are the principals in the Illinois College Savings Bond Program?" Even after the initial interview of each key contact, a similar question was posed. For example, after one major event, the key contacts were asked, "Does (this

event) impact the major players?" The second question constant throughout all interviews was related to another study question--"What are the objectives, what is the mission of (a player)?" The name of the player changed as the preceding events changed to reflect those events. Except for those two constant questions, all other questions were developed as the circumstances evolved. Every attempt was made to keep the questions open-ended and keep the key contact involved in the discussion of the events that had happened and the events that might happen related to the development of the program.

After the interviews were completed, the interviewer immediately left for a private place and recorded, as quickly and accurately as possible, the comments of the key contact. As often as possible, quotes were recorded. After recording those comments the interviewer's impressions were also recorded.

Although every attempt was made to decrease the occurrence of bias, interviewer bias reflected in the interpretation of data remains a possibility. As the interviewer engaged in collegial relationships with key contacts, the interviewer's impressions and ideas could not be entirely extracted from this account of events. In order to minimize the occurrence of interviewer bias, the interviewer circulated copies of this study to all key contacts at the conclusion of that portion of this study.

All key contacts were asked if they noted bias. Some key contacts were in fact willing to be interviewed but skeptical and less open. Those key contacts were not willing to review the documents in the end. Although the interviewer attempted to remain neutral on the issues surrounding the development of this program, a few key contacts sensed a danger in sharing their perceptions, especially those key contacts from the private financial community. The incidence of bias against the interviewer, in that case, is difficult to measure but must be acknowledged. All key contacts who reviewed the study verified the accuracy of the events of which they had knowledge.

In addition to the interviews, a number of personal documents were reviewed. Files containing personal correspondence between many people involved in the development of an Illinois college savings plan were made available to the researcher through key contacts. Though the sensitive nature of such documents prohibited the researcher from publicly disclosing them, notes were taken that included dates, names, and main ideas. These sources were primarily used to verify other disclosable information.

All field notes from interviews and document reviews were compiled in two different ways. First, they were compiled chronologically and relationships between events

were established and analyzed. Second, they were arranged according to people. Any notes relating to a certain person (extracted from that person or about that person) were put together for the purpose of corroborating a variety of impressions. Some information received by the interviewer was not included in this study. That information fell into two categories. First, some information, if included, would clearly identify the source and, therefore, jeopardize the integrity of the interviewer. Second, some information was not included because the interviewer was unable to corroborate the information. Only information corroborated by two or more sources was included in this study. In that sense, some of the story remains untold.

The highly sensitive relationship between the interviewer and interviewees during this political process was an important factor in all phases of this study. The ethics involved in protecting those relationships may have detracted from this study and must be acknowledged. However, without those relationships and the adherence to the interviewer's promises of anonymity, this study could not have been conducted.

Although the end of the interview process was not preselected at the beginning of the study, a natural endpoint seemed to be the implementation of the Illinois College Savings Bond Program. At that time another subset

of this study began, the purchaser study, and the key-contact interview subset of this study ended. Methodology related to the study of bond purchasers can be found in Chapter 4 of this dissertation.

CHAPTER 2
CONCEPTUALIZATION OF AN ILLINOIS PROGRAM

In 1986 Illinois policymakers, like their counterparts in other states, were discussing the possibility of a tax-exempt tuition savings program. Legislative staffs prepared draft legislation, legislators consulted with businessmen in the financial community, and educational leaders sought the advice of the few national experts on this topic. The exact point of program conceptualization in Illinois was difficult to pinpoint. The formal legislative beginning came with the adoption of Senate Resolution 782 on May 13, 1986 (State of Illinois, 1986a).

Senate Resolutions

Senate Resolution 782

Senate Resolution 782, offered by Senator Aldo DeAngelis, directed the Illinois Board of Higher Education to study the suitability of tax-exempt investment plans to assist parents in meeting the future costs of higher education for their children. Furthermore, the resolution called for the Illinois State Scholarship Commission to

assist in the study and to issue a report by December 1, 1986.

Although leaders in Illinois had been discussing such plans, it appeared that the enthusiasm and publicity generated by the Michigan BEST prepaid tuition plan (see Chapter 1) provided at least part of the momentum that led to the passage of Senate Resolution 782. Three weeks prior to the adoption of Senate Resolution 782, in a handwritten personal note to the Governor of Illinois, a prominent businessman and party politician encouraged the Governor to look into the possibility of a program such as the BEST program for Illinois. Attached to the note was a newspaper article about the Michigan program. Senate Resolution 782 contained these words: "Whereas, a tax-exempt program would allow parents to contribute to a state-administered investment plan has received considerable study by researchers in the State of Michigan" (State of Illinois, 1986a). According to government aides, many other constituents wrote to various officials in state government. They inquired about Illinois' response to Michigan's BEST program. For example, Illinoisan Bill Conaghan wrote to the executive director of the Illinois Board of Higher Education. He stated that the BEST program was not the best, and he would be willing to help the state in the development of a better program for Illinois. Mr. Conaghan had testified

before a subcommittee of the U.S. Congress in 1971 and had suggested a plan similar to Michigan's which he called "tuition futures" (U.S. Congress, 1971). The concept that Governor Blanchard of Michigan labeled "first of its kind" had been introduced at the federal level 15 years earlier. Conaghan's testimony received little notice at the time, and he was not asked to consult in Illinois in 1986. However, it appears that the numerous letters to government officials regarding the Michigan BEST program served to stimulate the development of a similar program for Illinois.

On December 1, 1986, the Illinois Board of Higher Education submitted a report to the General Assembly in response to Senate Resolution 782. This report was prepared by agency staff members and contained no specific recommendations.

Senate Resolutions 1289 and 1310

Sources close to Senator DeAngelis reported that he expected that the report to the General Assembly would contain recommendations supporting legislation for a tax-exempt tuition savings plan. Immediately after receipt of that December 1 report, Senator DeAngelis offered two more resolutions that mandated further work on tuition tax-exempt savings plans. Both resolutions were adopted by the Illinois State Senate. Senate Resolution 1289 called for the creation of a task force to further study these

kinds of plans. The task force was charged with making specific recommendations to the General Assembly and with meeting a reporting deadline of April 1, 1987. It was stipulated that the task force would consist of the following (State of Illinois, 1986b):

1. four members of the Illinois State Senate (two members to be appointed by the President of the Senate and two members to be appointed by the Senate Minority Leader),
2. one representative of the Illinois Board of Higher Education, who would also serve as the chairperson of the task force,
3. one representative of the State Treasurer's Office,
4. one representative of the Illinois Economic and Fiscal Commission,
5. one representative of the Bureau of the Budget,
6. one representative of the Illinois State Scholarship Commission.

The nine-member group included people with the perceived expertise for the development of ideas that would lead to legislation. The even distribution of Senate members (two from the majority party and two from the minority party) was planned to avoid entangling this issue in partisan politics.

In Senate Resolution 1310, which followed 1298 by a few weeks, DeAngelis called for the addition of the following members to the task force:

1. the chairperson of the Senate Committee on Higher Education,
2. the Minority Spokesperson for the Senate Committee on Higher Education,
3. a representative of the Federation of Independent Illinois Colleges and Universities,
4. two additional members to be appointed by the Senate President, and
5. two additional members to be appointed by the Minority Leader.

Legislative staff members reported that as news of the task force spread, certain groups not represented on the original task force asked to be included. After inclusion of those parties it became politically necessary to balance the group with additional members from the Senate.

After the adoption of Senate Resolution 1310, the size of the task force was increased to 16. A list of the members included

1. The Honorable Earlean Collins, Illinois Senate
2. The Honorable Aldo DeAngelis, Illinois Senate
3. The Honorable Ralph Dunn, Illinois Senate
4. The Honorable Beverly Fawell, Illinois Senate
5. The Honorable Joyce Holmberg, Illinois Senate

6. The Honorable George "Ray" Hudson, Illinois Senate
7. The Honorable Jeremiah E. Joyce, Illinois Senate
8. The Honorable Richard Newhouse, Illinois Senate Chairman, Senate Subcommittee on Higher Education
9. The Honorable William F. Mahar, Jr., Illinois Senate
10. The Honorable Patrick Welch, Illinois Senate
11. The Honorable Jerry Cosentino, Illinois State Treasurer
12. Dr. Robert L. Mandeville, Director, Bureau of the Budget
13. Dr. Richard D. Wagner, Executive Director, Illinois Board of Higher Education
14. Mr. Paul G. Vallas, Executive Director, Illinois Economic and Fiscal Commission
15. Mr. Larry Matejka, Executive Director, Illinois State Scholarship Commission
16. Dr. Donald Fouts, President, Federation of Independent Colleges and Universities

The Task Force

The task force met on three occasions: March 19, 1987, March 26, 1987, and April 21, 1987. Although its mandate was to recommend a tax-exempt tuition savings plan to the General Assembly by May 1, 1987, two bills authorizing prepaid tuition plans (modeled after the

Michigan BEST program) had already been registered before the first task force meeting on March 19, 1987. Senate Bill 17, offered by Senator Earlean Collins, had been introduced, as well as House Bill 320, offered by Representative Helen Satterthwaite (State of Illinois, 1987c).

<u>First Task Force Meeting, March 19, 1987</u>

At the first meeting, a leading authority on tax-exempt tuition savings programs, Dr. Richard Anderson, spoke to the group. Except for Dr. Anderson's informational speech, the meeting was primarily organizational. However, the first comment which followed Chairman Richard Wagner's opening remarks and preceded Dr. Anderson's presentation was made by Senator Earlean Collins. This comment is an illustration of the context within which the task force would have to work. She said, "I have a question. You said you needed to extend the deadline?" Dr. Wagner replied, "Yes, the deadline for a report from this Tuition Investment Task Force as created by these resolutions . . . was April 1, Senator, and we are not going to be able to conclude our work, I believe, by April 1. Now I know there are bills which have been introduced; and bills that may be heard in that process [subcommittee hearings] will continue on. I am speaking only, specifically, about the deadline to prepare a report from this Task Force" (Illinois Board of Higher Education,

Minutes of the Task Force Meeting, 1987b, p. 2). Senator Collins asked, "Will that report include any of the work that has been done?" Dr. Wagner replied, "Certainly." Senator Collins continued,

> We have done an awful lot of research and put in a lot of time with experts, and I think we've got a pretty good product at this point. As we move on through the system as planned--and I most certainly would not want to move something, if in fact the Task Force can come up with something that's more effective than what we've already done, but I don't think we have to re-invent the wheel with this Task Force. I think we ought to start from where we are because many of us have worked years on doing this, and there's a lot of work and research we have already gathered and generated that can be beneficial to this task force. We may be extending the deadline for an unnecessary reason if we take the resources generated. Legislative Council has been very active in providing us with research and it most certainly is more than what you have in this folder [reference to agenda items, informational items distributed prior to the meeting]. (Illinois Board of Higher Education, Minutes of Task Force Meetings, 1987b, p. 2)

Nonverbal communication by some Task Force members and observers during Senator Collins' remarks indicated they were surprised by her comments. When asked about this later, members and observers noted that, in their opinion, Senator Collins, in fact, had not done sufficient preparation for Senate Bill 17 specifically, or tax-exempt tuition savings plans in general. Senate Bill 17 offered by Senator Collins appeared to them to be a word-for-word replica of the legislation that had authorized the Michigan BEST program. Furthermore, all of the people

questioned after the meeting believed that Senator Collins's interest was not in carrying out the mandate of Senate Resolutions 1298 and 1310 but rather in furthering the chances of the passage of Senate Bill 17. The introduction of two bills prior to the first meeting of this task force appeared to create a sense of timeliness. To some observers and task force members it appeared that there was a rush to pass innovative legislation that would reflect positively on the State of Illinois.

After the Wagner/Collins exchange, the group heard the presentation by Dr. Richard Anderson. His presentation was very technical and seemed to capture neither the interest nor attention of the group. Following his presentation lighthearted comments were made by task force members to the Illinois Board of Higher Education (IBHE) staff member responsible for arranging Dr. Anderson's presentation, which indicated that his presentation was far too technical for the audience. The meeting closed with agreement by the group that public testimony would be heard at the next meeting scheduled for the following week.

Second Task Force Meeting, March 26, 1987

At the second meeting, public testimony was heard and extensive discussion followed many of the presentations. That meeting was the most substantive of the three task force meetings. It was more than twice as long as the

first and third meetings. Chairman Wagner delivered brief introductory remarks, and the testimony from invited experts began.

Mr. Widmer, of the Illinois Community College Board testified first. His remarks were short, and his primary point was that any plan developed in Illinois should enable future students to utilize the program benefits at community colleges as well as four-year institutions (Illinois Board of Higher Education, Minutes of Task Force Meetings, 1987c). Mr. Denny, on behalf of Southern Illinois University, testified briefly. He offered the help and support of SIU in development of any state plan and stressed his institution's desire to be a part of the process (Illinois Board of Higher Education, Minutes of Task Force Meetings, 1987c). Both Denny and Widmer testified that the groups they represented wanted to be included in this process. Some lobbyists working on behalf of individual institutions felt that too much already had occurred without their input and worried that the momentum created by the publicity would result in legislation that would be detrimental to the higher education community.

Sister Francis Marie Tralkill, of the Federation of Independent Illinois Colleges and Universities, testified next. Sister Francis Marie began by emphasizing the importance of listening to the opinions of experts. She

advocated for the portability of program benefits across state lines and between private and public universities. She said this should be an important feature of any state plan. She supported a national plan rather than a state plan. Finally, she expressed concerns about who would benefit from the proposed tax-exempt tuition savings plans. Sister Francis Marie said "experts acknowledge that tuition investment plans will primarily benefit students from affluent families . . . while we [Federation of Independent Colleges and Universities] share your concerns about the affordability of education, we cannot lose our focus on Illinois' more pressing educational needs" (Illinois Board of Higher Education, Minutes of Task Force Meetings, 1987c, p. 3). When she had finished her speech, Senators Hudson and Holmberg questioned her about her comment regarding affluent families. She responded, "For the most part, the middle class and the lower middle class simply don't have the cash to be able to put aside [for these tax-exempt tuition savings plans] . . . we're going to end up again educating at the states' expense more affluent students to the detriment of minorities and lower income students" (Illinois Board of Higher Education, Minutes of Task Force Meeting, 1987c, p. 5).

This was the first public discussion of potential beneficiaries of the proposed plans. Until this task

force meeting, the question of "who will benefit" had not been raised. Although the words "middle-income," "lower-middle-income," "lower income," and "affluent" had been used, no firm definitions of these terms had been established, and no specific target of the legislation had been identified. In later weeks, members of the task force and some of their staff members were asked about their definitions of middle-income families. No two people gave the same income definition. In fact, the figures mentioned ranged from $16,000 income per year to $60,000 income per year.

Senators Dunn and DeAngelis questioned the idea of portability outside the State of Illinois. Senator DeAngelis also raised questions about potential incentives for purchasers, such as guaranteed admission to the state's flagship institution or discounted tuition. Sister Francis Marie responded that admissions should remain the prerogative of each institution, and that discounted tuition would hurt both private and public institutions (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c). Leaders from the state's public universities, as well as leaders from the private institutions, were in agreement on that point. A program tied to admissions or to future tuition costs would put serious constraints on the autonomy of the institutions.

Senator Collins ended the discussion. She said, "most of the issues you have raised, we've considered already. . . . I find myself wasting time listening at both of these hearings about problems that I think we have addressed already. . . . This hearing is not going to come up with anything greater than what many of us have already done" (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c, p. 10). Dr. Wagner and Senator DeAngelis both commented on the continued need for further discussion and analysis.

Mr. Kirk Hard, Governmental Liaison for the University of Illinois, testified on behalf of his university. He expressed the university's opposition to prepaid tuition programs or any other plan that might cause the loss of the university's tuition income in the future or negatively effect future tuition policy. He expressed the university's preference for "educational investment accounts" over prepaid tuition plans. Some discussion followed. Mr. Hard's comments paralleled letters sent to many of the principals by the Presidents of the University of Illinois and Southern Illinois University-Edwardsville (Ikenberry, 1987; Lazerson, 1987).

The testimony of Mark Gallagher, of the First Bank of Chicago, differed from the others in that prior testimonies had addressed the prepaid tuition plans currently in the legislative pipeline or general features

of any potential tax-exempt tuition savings plan. His presentation was obviously prepared, and he introduced a "new product." He said,

> After looking at those alternatives, we [bank personnel] then thought, "Is there a way of modifying some of the existing investment alternatives to make them more suitable or particularly tailored to Illinois parents that are planning to save for college education?" And what we came up with is basically a zero coupon tax-exempt bond issued by the State of Illinois that is specifically marketed to Illinois parents or grandparents or others that are planning to save for the cost of college education in the future. At this point I'd like to say I'm not presenting this as an alternative to prepaid tuition in the sense that we think the prepaid tuition programs are bad or not suitable to parents, we're presenting it simply as an alternative to be considered and perhaps to supplement a prepaid tuition program. It has some clear advantages and some disadvantages when compared to the prepaid tuition programs that we've reviewed. (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c, p. 18).

Mr. Gallagher's presentation was longer than that of the others and outlined the features of this alternative plan. He began by educating the task force about municipal bonds and the municipal bond market. He provided visual aids in a packet that he distributed to task force members and to the observers. The summary from that packet follows and illustrates the major features of Gallagher's "new product."

> Illinois College Savings Bonds, a program designed to:
> * Provide an excellent savings plan for Illinois parents to prepare for the cost of their child's college education

* Provide a low cost source of funds to the State to finance its ongoing capital program
* Encourage enrollment in Illinois public and private universities, colleges and community colleges

The Illinois College Savings Bonds are structured as follows:

* State of Illinois General Obligation Bonds, AAA/AA+ rating;
* Zero coupon bonds with a maturity of 1 to 25 yrs.;
* Interest earned on the bonds is exempt from Federal and State income taxes;
* The initial offering price to the investor is determined by the State and prevailing market conditions, but is expected to require a minimum $2,000 investment;
* The State may provide an additional payment to the bondholder at maturity of the bonds, if the bondholder provides proof that a member of their household has enrolled in an in-state college. Note: this is an optional feature that the State may or may not include in the offering of College Savings Bonds. (Gallagher, 1987, p. 19)

The handout provided by Mr. Gallagher included a list of advantages of this program over other tuition investment plans, a list of marketing ideas and strategies, a note on the minimal fiscal impact of the new plan on the state, the breakout of return to investors, and the following specific sample case:

Parents with one child, age 5, want to begin a savings program to pay for their child's college tuition. They desire a savings plan that will fund four years of college tuition costs at an in-state public university. For this example, room and board costs are assumed to be funded from other sources which might include student or parental income.

Facts: Age of child - 5
Number of years until college age - 13
Year child enrolls in college - 2000
Current tuition cost at state university - $1,529*

Age	Year	Tuition Cost
18	Freshman	$2,883
19	Sophomore	$3,027
20	Junior	$3,178
21	Senior	$3,337

[These figures seem to have been taken from the University of Illinois where tuition is higher than at other state institutions but significantly lower than at private institutions. Some task force members preferred both costs.]

Savings Plan

To establish a savings plan, the parents buy College Savings Bonds at a cost of about $2,000 per year over a three year period as described below:

Yr.Bond Pur.	Price	Bond Yield	Mat.Date	Pd.at Mat.
1987	$2,044	7.0%	2000	$5,000
1988	$2,044	7.0%	2001	$5,000
1989	$2,044	7.0%	2002	$5,000

The Bonds are exempt from federal and state taxes, therefore, the entire payment at the maturity of the Bonds is available to fund tuition costs.

Age	Year	Tuition Cost	$$From Bond	Bal.	Cum.Bal.
18	2000	$2,883	$5,000	$2,117	$2,117
19	2001	$3,027	$5,000	$1,973	$4,090
20	2002	$3,178	$5,000	$1,822	$5,912
21	2003	$3,337	-0-	($3,337)	$2,575

In the above example, the parents were able to fully fund the tuition cost of their child's college education by purchasing College Savings Bonds at a cost of $2,044 per year over three years. The income from the Savings Bonds was sufficient to pay the cost of tuition at a state university over four years with a balance of $2,575 that may be used to pay other college expenses.

*Average undergraduate tuition at the University of Illinois at Urbana for the 1986-87 school year.

**Assumed 7.0% yield for this example, actual yield will depend on prevailing interest rates when the Bonds are offered for sale. (Gallagher, 1987, p. 20)

The sample case is included here to illustrate the ability of the bank's representative, Mr. Gallagher, to translate what had been abstract concepts into a concrete program that could be understood by the task force comprised of members with diverse backgrounds. Furthermore, the sample case later was reprinted and distributed by many of the task force members and others. Newspaper advertisements with the illustration were used during the later bond sale, and it became a tool used to market the concept of College Savings Bonds.

Extensive discussion followed the presentation. Task force members asked many clarifying questions about specific features of the proposed College Savings Bond Plan. Senator Holmberg returned to the question of "Who will benefit?" She said, "One of my concerns, which I mentioned before, is that broad category of middle class parents" (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c, p. 27). Mr. Gallagher responded to her question indicating his belief that middle-income families would benefit most from his plan. The lengthy question and answer period ended when Mr. Dave Elder, now representing Senator Aldo DeAngelis (who had left the meeting), asked Mr. Gallagher to provide the

Senator with some additional information to supplement the handouts.

The last testimony received by the task force that day was from Mr. David Starrett who spoke on behalf of the Illinois Student Association. He expressed student concerns about any plan's effect on scholarships and existing financial aid programs. He expressed concern that a successful plan of this type might erode the legislature's commitment to people unable to participate in this program.

Dr. Wagner closed the second task force meeting with a proposal. He said, "What I would like to propose is that we follow Senator Collins' suggestion and ask our staffs to take a look at the two major proposals that are on the table, the tuition prepayment concept and the IRA-like trust account, and to evaluate the pros and cons of each, and prepare a paper for our consideration when we meet, shall we say two weeks from today" (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c, p. 27). Mr. Elder responded, "I don't think that what is prepared for evaluation should be limited to the content of the two specific bills [previously introduced bills, HB 320 and SB 17] but other proposal and other types of programs should also be included" (Illinois Board of Higher Education, Minutes of the Task Force Meeting, 1987c, p. 27).

Entry of the First Bank of Chicago

Mr. Gallagher's presentation at the task force meeting marked the formal entry of the First Bank of Chicago and changed the direction of the task force's efforts. On April 7, 1987, in a letter to Senator DeAngelis, Mr. Gallagher responded to technical questions. Furthermore, he said, "I have also attached draft legislation that would authorize the sale of College Savings Bonds. Please call me if you have any questions" (Gallagher, 1987, p. 1). Shortly thereafter two bills were introduced in the Illinois legislature that closely resembled the draft legislation submitted to Senator DeAngelis by Mr. Gallagher on April 7 (State of Illinois, Senate Bill 02 and Senate Bill 875). The two bills were only slightly different from one another in technical aspects. Both would authorize an Illinois College Savings Bond Program. Senate Bill 02 was sponsored by Senator DeAngelis and Senate Bill 875 was sponsored by Senator Joyce Holmberg. Also, between the second and third task force meetings, Mr. Gallagher met with at least seven task force members in order to discuss further his Illinois College Savings Bond Program.

Germane to the discussion of First Bank of Chicago's formal involvement in the development of a tax-exempt tuition savings plan for Illinois is a discussion of the qualifications of their municipal bond department

representative, Mr. Mark Gallagher. In addition to his municipal bond expertise, Mr. Gallagher knew a great deal about government and education. He had worked for the Bureau of the Budget of the State of Illinois, as well as for the Illinois State Department of Education as a fiscal analyst. Sources closely involved with the conceptualization process said that only a person with Mr. Gallagher's unique set of experiences and contacts could have developed this proposal and successfully guided it through the legislative process. His ability to form a cooperative effort between the executive and legislative representatives of the state, the higher education community, and the private sector also was unique due to his political expertise. After the Illinois College Savings Bond legislation was introduced, Mr. Gallagher was asked to testify before legislators in at least three other states.

Third Task Force Meeting, April 21, 1987

The final task force meeting began with a presentation by Mr. Paul Vallas, of the State of Illinois Economic and Fiscal Commission. He discussed the advantages of the two major options: prepaid tuition plans and "the zero coupon bond approach." The latter term referred to the recently introduced Senate Bill 02 and Senate Bill 875. At the end of his talk he recommended the zero coupon bond approach. Following

Vallas' presentation, further discussion took place. Technical issues related to state bonding authorities and tax-exemption were discussed. An educational program that accompanied the college savings bond program was proposed. The task force unanimously agreed upon the importance of educating families about college costs, financial aid programs, and savings programs. This proposed education program was perceived to be a key feature of any savings program that the state adopted. The last topic that Mr. Vallas was asked to address was the topic of program incentives within the program to insure the use of this program for college savings rather than as an investment tool unrelated to college savings. Brainstorming followed that produced a number of possible incentives that could be built into the college savings bond program.

Once again, the question of "who will benefit" was raised. Mr. Gary Marschke, of the state Treasurer's Office (representing task force member State Treasurer Jerry Cosentino), said,

> There is one problem bothering me about this, and that is the fact that the income brackets that we're looking at as far as helping are the lower-middle-income and middle-income families. Assuming that the low-income families would be getting scholarship money and the high-income families will have no hardship, the availability of zero coupon bonds to lower-middle and middle-income families takes about an outlay of $2,000. If you want to get a $5,000 bond . . . you're talking about 6 or 7% of their income for this program. I find it difficult to believe that they would be able to do that. (Illinois Board

> of Higher Education, Minutes of the Task Force Meeting, 1987d, p. 10)

This comment sparked extensive discussion. Senator Fawell echoed Mr. Marshke's concerns. Mr. Marschke said that he assumed that middle-income people were those with a yearly income of $28,000 to $33,000 (6-7% of their income).

One solution to this problem, the possible inability of middle-income families to access this program, was offered. A suggestion was made to offer the bonds in denominations less than $5,000, as had been proposed. If bonds were sold in lower denominations, then the cash requirement at purchase would be less. This would enable a greater number of families to participate in the college savings bond program. Mr. Ofcarcik, of the Economic and Fiscal Commission (accompanying task force member Mr. Paul Vallas), responded, "It could go lower, but you have the same servicing costs for a $500 bond as you do for a $5,000 bond, so that you wouldn't be able to get as good of a rate of return" (Illinois Board of Higher Education, Minutes of Task Force Meetings, 1987d, p. 11). Senator DeAngelis, sponsor and co-sponsor of SB 02 and SB 875 respectively, stated that the college savings bond plan was not for everybody, and that other plans for families to save should be considered.

Dr. Wagner then called upon Mark Gallagher, of the First Bank of Chicago (an observer at the meeting). Mr.

Gallagher addressed the issue of smaller denominations. He said that bonds of smaller denominations would be difficult to sell in a secondary market, and that he knew of cases where mini-bond issues had been unsuccessful. "I would not encourage the Task Force to go in that direction," he said (Illinois Board of Higher Education, Minutes of the Meeting, 1987d, p. 14). During a discussion shortly after this meeting, Mr. Gallagher said that the financial community would never accept the idea of denominations lower than $5,000. He said that it would not be profitable, and that the First Bank of Chicago would not cooperate with the state if the Task Force pressed this issue.

Dr. Wagner promised a report of the three meetings and committed his staff to the task of gathering and synthesizing all information received. He said the Task Force would make no recommendations and said the report would be ready in time for Senate members to use it as a tool to assess legislation as it moved through the chambers.

Final Report of the Task Force

The charge of the Task Force was to study all possible options and to present recommendations to the General Assembly. In fact, the discussion began with specific legislation already introduced. The final report, dated May 1, 1987, contained no recommendations.

The conclusion of the final report of the Task Force contained this statement:

> The four approaches were presented to and discussed by the Task Force. Rather, the Task Force believed that information should be reported to the General Assembly to assist members as they consider individual pieces of legislation. The expected outcomes for a plan, the desirable features of a plan from the perspective of the parent and the desirable features of a plan from the perspective of the state are presented in this report as criteria by which specific proposals may be evaluated. (Illinois Board of Higher Education, Final Report of the Task Force, 1987a, p. 8).

Sources close to the principals said that given the Task Force membership, which included three sponsors of four active bills, and the context within which the Task Force worked, it would have been politically difficult to agree on any one plan or any one set of recommendations. Those comments were confirmed by Chairman Dr. Richard Wagner during a discussion shortly after the final meeting of the task force. Minutes of the Task Force meetings, transcripts of testimony, and a copy of all the pertinent Senate Resolutions were included in the appendices of the Task Force report.

CHAPTER 3
THE PASSAGE OF LEGISLATION

Four Bills to Consider

At the end of the conceptualization process, formally marked by the submission of the Task Force report to the General Assembly, four bills were introduced to the Illinois State Legislature. An official synopsis of those four bills follows (Illinois Board of Higher Education, 1987e, 1987f):

> Senate Bill 02 - Sponsors: Senator Aldo DeAngelis Republican - Olympia Fields, and Senator William Mahar, Republican - Homewood (Representative Gene Hoffman, Republican - Elmhurst, and Representative Robert Terzich, Democrat - Chicago).
>
> New act which creates a Baccalaureate Savings Act: authorizes portion of State General Obligation Bonds; to be sold as zero coupon College Savings Bonds; includes interest rate premium for individuals attending Illinois institutions of higher education; exempts earnings and contributions from state income tax; creates an authority to make other investment vehicles available; exempts investments from Illinois State Scholarship Commission needs analysis and requires development of educational program to inform parents of options available for financing college costs; provides that the Baccalaureate Trust Authority advises the Governor and the Bureau of the Budget regarding certain matters of program; other technical provisions. Effective January 1, 1988.

Two features distinguish this bill from the others. First it had bipartisan sponsorship from four respected members of the General Assembly. Second, it contained language authorizing a board which would oversee future bond sales. The language regarding the board was stronger in Senate Bill 02 than the language regarding the board in Senate Bill 875.

> Senate Bill 875 - Sponsors: Senator Joyce Holmberg, Democrat - Rockford, and Senator Aldo DeAngelis, Republican - Olympia Fields (Representative Helen Satterthwaite, Democrat - Champaign).
>
> New act which creates the Illinois College Savings Bonds Act; authorizes $3,000,000 of State Obligation Bonds to be sold as zero coupon College Savings Bonds; includes an interest rate premium for individuals using proceeds at Illinois institutions of higher education; exempts earnings from Illinois tax; requires Board of Higher Education and Illinois State Scholarship Commission to develop a college cost information program; exempts bond purchases from Illinois State Scholarship Commission needs analysis; creates College Savings Plan Advisory Board. Effective immediately.

Senate Bill 875 was very similar to Senate Bill 02, except for the subtle differences in the authority given to the board and the premium interest for savers using the matured bonds for college expenses. Under Senate Bill 875 the board would have less authority than under Senate Bill 02.

> Senate Bill 17 - Sponsors: Senator Earlean Collins - Democrat - Chicago, and Senator Joyce Holmberg, Democrat - Rockford, and Senator Dawn Clark Netsch, Democrat - Chicago, and Senator Art Berman, Democrat - Chicago (Representative Anthony Young, Democrat - Chicago, and

Representative Helen Satterthwaite, Democrat, Champaign).

New act which amends Illinois Income Tax Act, creates the Illinois Baccalaureate Education System Trust; creates trust within Office of the Treasurer; provides for three advance tuition plan contracts based upon state-weighted average tuition; provides for state personal income tax deduction equal to annual advance tuition payment; requires State Department of Revenue to solicit Internal Revenue Service ruling regarding tax status prior to issuance of tuition contracts. Effective date open.

Senate Bill 17 bill was one of the three original prepaid tuition bills, introduced prior to the first meeting of the Task Force created by Senate Resolution 782. The language was taken directly from the Michigan legislation which authorized the Michigan BEST program.

House Bill 180 - Sponsors: Representative Helen Satterthwaite, Democrat - Champaign, and Representative Woods Bowman, Democrat - Evanston, and Representative Peg Breslin, Democrat - Ottawa (Senator Joyce Holmberg, Democrat - Rockford).

New act which creates Illinois College Savings Plan Act; establishes College Savings Plan Advisory Board to recommend marketing procedure and bond offerings; directs Board to make recommendations to the General Assembly by June 1, 1988 concerning an advanced tuition program; provides that first $25,000 of college savings bond investment not be considered in evaluating students' financial situation for specified assistance program; authorizes $3,000,000 in General Obligation Bonds to be issued as zero coupon College Savings Bonds; exempts bond income from state and local taxation.
Also amends Higher Education Student Assistance Law; clarifies procedures for Merit Scholarship Program, including provisions for refund of awards upon students withdrawal from college or university prior to completion of first semester or quarter of study; outlines procedure for making awards when appropriations do not fully

fund program requirements. Effective immediately.

House Bill 180 was similar to both Senate Bill 02 and Senate Bill 875 but included revisions to the Merit Scholarship Program; however, this was unrelated to the college savings bond concept. The use of this bill as a vehicle for that particular legislation was the distinguishing feature of House Bill 180.

A fifth bill, House Bill 320, was withdrawn by its sponsor, Representative Helen Satterthwaite, at the time of her submission of a revised bill, House Bill 180.

In order to establish a frame of reference and to illustrate the pace at which these four bills moved through the legislative process, these dates serve as a historical backdrop to a discussion of the passage of this legislation.

April 27 - May 1, 1987	Senate Bill 875, 02, 17, and House Bill 180 were posted and read.
May 1, 1987	The Task Force Report was submitted to the General Assembly.
June 12, 1987	The Senate Subcommittee on Higher Education and House Subcommittee on Higher Education considered the

	bills. The bills passed out of committee.
June 12-16, 1987	Senate Bill 17, 02, and 875 passed Senate, and House Bill 180 passed the House.
June 17-28, 1987	Senate Bill 17, 02, 875 passed the House and House Bill 180 passed the Senate.
June 30, 1987	The legislative session ended.

The leadership of the Illinois House and Illinois Senate reached an agreement sometime after the receipt of the Task Force Report and before the June 12, 1987, Higher Education Subcommittee meetings. The agreement was that all four bills would pass both House and Senate. There may have been more than one reason.

In the House of Representatives Higher Education Subcommittee Meeting, Representative Helen Satterthwaite, the Chairperson, stated that an agreement had been reached between the leaders of the House and Senate, and that they, together with the sponsors of all four bills would be meeting to develop a compromise satisfactory to all parties. She asked that all committee members abide by this agreement and pass the bills out of committee (Transcripts of Subcommittee Meeting). Other observers and some legislators felt that there were other reasons

for this compromise decision in addition to the reason stated by Representative Satterthwaite. First, if all four bills passed and were sent on to the Governor, then he would be forced to make the final decision concerning which of the four bills would become law. Most legislators were not concerned with which of the four bills passed because three of the four bills differed only on technical points. Forcing a decision by the members within each body would have divided them and forced alignment behind one bill or another. This was perceived as politically costly and may have affected more substantive, controversial bills which were upcoming, Second, a "yes" vote on all of the bills would be palatable for most members and give them an opportunity to vote "yes" to education not just once but four times. Lobbying groups and legislative watch groups count votes by topic to facilitate reporting to constituents on legislators' voting behaviors. A "yes" vote for education is rarely seen as negative and almost always viewed positively.

Legislators representing districts in which a college or university resided had a somewhat different problem. Senate Bill 17 which was the only prepaid tuition bill (the others were college savings bond bills) was unacceptable to universities and thus opposed by those legislators from their districts. The lobbying effort of

university constituencies from their districts was strong in opposition to Senate Bill 17. Two of the lobbyists who worked for universities received assurances by the respective legislators that Senate Bill 17 would be vetoed by the Governor or left out of a compromise bill by the sponsors even though it would pass out of committee. At that point Senate Bill 17 was formally alive but informally dead. Led by the University of Illinois, the lobbying effort against prepaid tuition plans and Senate Bill 17, was effective. All four bills passed out of subcommittee and were passed by both the Illinois Senate and the Illinois House of Representatives. The vote on all bills was nearly unanimous in both bodies.

Each person associated with the passage of these four bills had different reasons for arriving at the same decision. As these four bills moved through the legislature there were some illustrations of those reasons and the interests of those people affecting or making the decision.

Legislative Interests

Constituent Interests

Legislators as a group, due to the representative nature of their elected position, must weigh and establish priorities of their constituents' interests and desires. Their constituencies are confined primarily to the district that the particular legislator represents.

Bills, written by legislators and voted on by legislators, address the interests of the state as well as local constituencies. An elected official is often presented with a conflict between the interests of his local constituency and the interests of the state. In these cases, a legislator frequently values more highly the needs and interests of the local constituency over the needs of the state as a whole. In the case of Senate Bill 17, Senate Bill 875, Senate Bill 02, and House Bill 180, most legislators received minimal input from their local constituency. One legislator said, "We aren't helping anybody, and we aren't hurting anybody [with this legislation]." Another legislator explained further that these bills evolved from within the structure of government, not from an outside grass roots movement. Consequently, there was no major lobbying effort in support of the bills. Neither was any local constituency against these bills. With the exception of the universities' opposition to Senate Bill 17, no local constituencies felt a potential adverse impact of these bills. He said, "It's like Mom and apple pie--who could be against it [Senate Bill 02, Senate Bill 875, and House Bill 180]?" Although local constituent interests often effect a legislator's decision, in this case local constituent interest was not felt.

Student Interests

There is some evidence that many legislators were concerned with student interests and parent interests. However, for the following analysis students and parents are considered unique interest groups separate and different from other local constituents.

In Task Force meetings, Senator Joyce Holmberg referred to the changing needs of students and parents and her desire to meet those needs. At the same meetings Senator Beverly Fawell raised questions about parents' ability to afford the cost of savings bonds as proposed in these programs. She also spoke of her concern for the students' right to choose an institution. Senator Aldo DeAngelis frequently referred to his personal experience as a parent trying to meet college expenses. He expressed a genuine desire to make it easier for other parents facing similar problems. In other interviews, six legislators expressed empathy for the financial plight of college-bound students and their parents who might be affected by these four bills. In some cases the legislators' concern was for those who might not be financially able to participate in the program but desperately needed legislative attention. For other legislators the concern was for participating parents as consumers, i.e., for their protection and rights under the proposed programs. These four bills, like many bills

related to education, were bills about which legislators had personal experience and empathy. During the legislative process student and parent interests had some impact on the legislators making decisions about the fate of Senate Bill 02, Senate Bill 875, Senate Bill 17, and House Bill 180.

<u>Political Interests</u>

In addition to the local constituent interests and student/parent interests, legislators were effected by political considerations. Each sponsoring legislator had an interest in being the sponsor of the bill that would be enacted into law. The programs in question were innovative and popular. If the media attention given to the Michigan BEST program was a bellwether, then an Illinois program would certainly generate positive media attention and notoriety for the sponsor. These were unique pieces of legislation because the potential positive political result was greater than the minimal risk of negative political fallout. The positive effects of association with these bills had some impact on Illinois state legislators in their decision to support them, though it is difficult to measure that impact.

<u>Governor's Office Interest</u>

<u>Constituent Interests</u>

The Governor, like legislators, had constituent interests to consider. Unlike legislators' local

constituencies, the Governor's constituency was statewide. Balancing local interests with statewide interests presented less potential conflict. Earlier in this study, illustrations were provided which demonstrated typical constituent interests. During the time that these four bills moved through the legislature, however, there was less constituent input than during the conceptualization process or the implementation process. Consequently, the pressure that may have been present from groups in strong opposition or in strong support of one particular bill was absent.

Student Interests

As the Governor was recognized as being a supporter of higher education, it appeared he had student interests at heart. During a staff meeting, the Governor was reported to have expressed concern for parents of more than one college-bound child. He recognized the enormous financial responsibility faced by parents like himself who were planning for the future costs of higher education. Furthermore, the inclusion of student groups at Task Force meetings and at subcommittee hearings was a result of efforts by the Governor's staff who understood his desire to attend to student interests.

State Fiscal Interests

More for the Governor's Office than for legislators, state fiscal interests required serious consideration.

One staff member noted, "The legislature debates state finances, the Governor lives with them." In the case of Senate Bill 17, particularly, signals were sent from many sources to the Governor. Those sources cautioned the Governor's Office of the possible fiscal liability associated with any prepaid tuition plan. Dr. Richard Wagner, Executive Director of the Illinois Board of Higher Education, in a memo to the Governor's Office in late May, 1987, cited five potential obstacles to implementation of an Illinois prepaid tuition plan modeled from Michigan's program. Of those five obstacles, three had fiscal implications. Similar letters and memos to the Governor which outlined similar concerns with Senate Bill 17 were sent by officials of the State of Illinois Bureau of the Budget, of the State of Illinois Economic and Fiscal Commission, and the State of Illinois Department of Revenue, by some University presidents, and from various staff people as well. The fiscal implications of Senate Bill 02, Senate Bill 875, and House Bill 180 caused less concern but required the Governor's consideration nonetheless. The loss of tax revenue and the cost to the state for the bonus or incentive payment were fiscal considerations recognized by the Governor's Office. The Governor's staff requested cost estimates from the Bureau of the Budget to assess the fiscal impact of each bill. The merit of each bill was then compared to the cost in

relation to the total state budget. The Governor's office believed that the bills which authorized college savings bonds would not cost the State of Illinois as much as the bill which authorized a prepaid tuition plan.

Higher Education Community's Interest

Student Interests

Although legislators and the Governor's Office expressed some concern for students, the administrators of institutions of higher education were strongly motivated by student interests. Free from the competing pressures of constituent interests (prisons, roads, economic development, etc.), the higher education community had an almost singular interest in students and in the state's institutions of higher education. The issue of student choice or the loss of student choice as it related to the various prepaid tuition plans provided an illustration of the interest in students by the higher education community. Sister Francis Marie Thraikill, on behalf of the Federation of Independent Illinois Colleges and Universities, spoke of student concerns during the second Task Force meeting. She raised the issue of student choice and discussed the impact of the proposed programs might have on future students. Mr. Don Fouts, of that same organization, raised the same issues in a letter to the Governor.

Between May 1 and June 30, many had forgotten the Task Force's claim that there was a need for a public awareness campaign. The higher education community saw that campaign as a way to educate the public about the need to save for college. Many believed that a public awareness campaign together with a college investment plan would have a greater effect than any of the proposed investment vehicles alone.

Although many in the legislature and Governor's Office concentrated on political, fiscal, and other interests, those in the higher education community were concentrating in earnest on the educational component of the program. Members of the Illinois Board of Higher Education staff, Illinois State Scholarship Commission staff, the University of Illinois Financial Aid staff, and the State Board of Education staff collaborated, gathered data from other states, and prepared for a public awareness campaign. One outcome of their work was the Lifespan brochure series, designed to educate families about the costs of higher education. Each brochure was designed to target a specific age group (Illinois State Scholarship Commission, 1988).

Through these continued apolitical efforts on behalf of all students and families, and by their efforts to bring student interests to the forefront of all

discussions, the higher education community demonstrated that student interests were a priority.

Administration

One underlying concern for the higher education community was the issue of administrative responsibility. After legislators pass legislation authorizing new programs, they must turn their attention to other issues. The responsibility to administer the new program then falls to state agencies or institutions. There is usually an administrative cost to the state agencies or institutions required to implement any given program. Frequently, legislators neglect to provide funding to cover those costs. During consideration of Senate Bill 02, Senate Bill 17, Senate Bill 875, and House Bill 180, there was discussion within the higher education community about administrative responsibility. In the case of Senate Bill 17, the administrative responsibility fell to the Office of the State Treasurer. However, in the case of the other three bills, some administrative responsibilities were unclear. For example, staff support was necessary for the "Baccalaureate Trust Authority" authorized by Senate Bill 02, and for the "Advisory Board" called for in Senate Bill 875 and House Bill 180. Members of the Illinois Board of Higher Education and the Illinois State Scholarship Commission, the state agencies most likely to provide the support, wondered if additional

state funds would accompany the legislation for this purpose. Senate Bill 02 and Senate Bill 875 authorized an incentive or bonus payment to families who redeemed college savings bonds at an Illinois institution. Administrative support for verification of the student's enrollment and for the disbursement of the bonus was necessary yet the higher education community did not know whether that responsibility would lie with one of the state agencies or with them. Some agencies and institutions did not want the responsibility, others were willing to be responsible if the administrative costs were appropriated.

Impact on Other Higher Education Programs

Members of the higher education community sought to protect the programs already in place and, consequently, evaluated this legislation by assessing its impact on their present operations. In the case of these four bills, one important issue for the higher education community was whether or not these programs would have an impact on existing financial aid programs. People in the higher education community worried about whether legislators, having legislated a new program, would feel that they had done enough for needy students. They wondered if other financial aid programs would consequently suffer or if future programs would be jeopardized. They wondered if the needs of middle-income

families would be met by this program. They believed that if the increasing financial aid needs of the middle-income sector were not met by these programs, the higher education community would not be able to satisfy that unmet need with existing programs.

Private Sector Interests

Profit

Profit was the most important private sector interest. In the case of Senate Bill 02, Senate Bill 875, and House Bill 180, a private sector bank or firm would be awarded the lead underwriter position for the sale of the General Obligation Bonds. The profit to the lead underwriter was approximately 8-10% of the par value of the issue of Illinois College Savings Bonds. In this case, the first sale of Illinois College Savings Bonds was a $219 million bond issue. The profit potential for the lead underwriter was substantial. That profit potential motivated those from the private sector who became involved in the passage of Senate Bill 02, Senate Bill 875, and Senate Bill 180. In the case of House Bill 180, no profit potential existed for the private sector banks and brokerage firms, and those banks and firms were not involved in that bill's movement through the legislative process. In the case of Senate Bill 875 and Senate Bill 02, one lead underwriter would be selected and would distribute bonds through the retail network. Brokers

would then sell the bonds and collect a fee of approximately $30-$100 per sale if the average buyer purchased four to six bonds. There is evidence that Mr. Gallagher prepared a report for his bank that included the profit potential should the best scenario occur: the Illinois sale would be successful, and that success would lead to similar business with other states. Though the program could be profitable in Illinois, the potential for profit would be substantially increased if other states implemented the program. Though the potential profit from retail sales was considered, the profit from underwriting the Illinois bond sale and similar future sales primarily motivated the private sector.

Public Relations

There was hope in the private sector financial community that this unique bond sale would serve a previously untapped group of consumers. It was hoped that first-time bond buyers would be brought into the retail bond market. As they saw their bond investment increase, they would consider further investments with the same broker. The financial community saw the publicity generated by the bond program as free advertising and hoped it would open a new market for them. As one legislator said, the college savings bond would be a "come-on" for brokers at a time when business was especially competitive. Furthermore, this publicity would

demonstrate their ability to market municipal bonds creatively and enhance their stature in the very competitive public finance world.

Senate Bill 02 Becomes Public Act 85-939

Bill Analyses Sent to Governor

The four bills passed by the General Assembly, Senate Bill 17, Senate Bill 02, Senate Bill 875, and House Bill 180, were sent to the Governor. At that same time the Governor's Office received a number of bill analyses from legislators, bureau chiefs, aides, and other interested parties. In some cases, these analyses favored no particular bill but provided insight and expertise by describing the advantages and disadvantages of each. In other cases they were part of a lobbying effort for one particular bill over the others. A few bill analyses reached the Governor directly, but most were received by his aides and were incorporated into their analyses.

The Illinois Board of Higher Education staff submitted an analysis to the Governor's aides that listed the advantages and disadvantages of each bill to the parent, to the student, and to the state. No particular bill was recommended. However, the order in which the bills were presented in that analysis was notable. Senate Bill 17 was covered in one section, House Bill 180 in another section, and Senate Bill 02 and Senate Bill 875 together in one section. The order may have indicated

that at that time the decision was between those two bills, Senate Bill 875 and Senate Bill 02, and that the other two, Senate Bill 17 and House Bill 180, were alive only in a formal legislative sense.

The University of Illinois staff submitted an analysis that was sent to the Governor as well as to his aides. Some observers noted that this was indicative of the power and clout of the state's flagship institution. In that analysis the University of Illinois staff strongly opposed Senate Bill 17. They expressed preference for "educational investment account plans," but did not support one of the other three bills. This summary statement was made:

> The University of Illinois does not set public policy; that is a matter for the Legislative and Executive branches of State government to determine. Based on the information about the programs proposed, the University would suggest the following: It appears that the 'educational investment account' plans would permit families to save effectively, would permit the State to exercise the same investment strategies as would a tuition prepayment plan, and would be free of most, perhaps all, of the potential negative impacts on tuition policies that tuition prepayment mechanisms might introduce. Therefore, of the options currently under review, the University considers the 'educational investment account' approach to be the preferable alternative. (University of Illinois, 1987, p. 2).

The University's lobbying efforts then focused on opposition to Senate Bill 17. Their neutrality about the

other three bills was further confirmed in the final statement of the analysis:

> The University of Illinois appreciates the opportunity to provide this information. There appear to be several options which could make it easier for Illinois families to save for the education of their children. The University will object strongly to any prepayment mechanism which would cause a loss of tuition income. There are several important public policy issues which need further examination, to make certain that the programs proposed will have the impact which is intended for them. On the whole, the University agrees with efforts which encourage Illinois families to save for the future education of their children. (University of Illinois, 1987, p. 3).

Sources close to the leaders of the University of Illinois and other state universities said that the university community was skeptical about the ability of Senate Bill 02, Senate Bill 875, and House Bill 180 to fulfill their intended purpose. Nevertheless, those three bills were acceptable, and the university leaders decided to concentrate their opposition on the prepaid tuition plans. Though lobbyists for the universities had received assurances that Senate Bill 17 would not be signed by the Governor, they continued to communicate their opposition to that bill.

One bill analysis was notably different from the rest. It was sent by Mark Gallagher to three aides of the Governor, to three staff members of the Bureau of the Budget, and to one staff member of the Illinois Board of Higher Education. The analysis was unique because it was

distributed widely and contained strong recommendations on all four bills. Gallagher urged the Governor to adopt Senate Bill 875 and veto Senate Bill 17, Senate Bill 02, and House Bill 180. Gallagher took credit for the concept of college savings bonds in his introductory remarks. He said, "Three of the bills authorize the sale of College Savings Bonds--a program created and developed by First Chicago, with the support of many Higher Education interest groups. . . . To assist in advising the Governor on the merits of the four bills I have analyzed each of the bills below" (Gallagher, 1987, p. 1). The text of this analysis, as it relates to two of the bills, Senate Bill 875 and Senate Bill 02, is a good example of First Bank of Chicago's lobbying effort:

> Senate Bill 875
>
> Senate Bill 875 is a "clean" version of the College Savings Bond program that I first presented to Jim Reilly and Dr. Mandeville in February of this year. The bill amends the General Obligation Bond Act to authorize the Governor and Director of the Bureau of the Budget to sell up to $300 million of bonds in the form of College Savings Bonds. The bonds have the following features:
>
> * sold in the form of general obligation zero coupon bonds,
>
> * marketed to Illinois parents as a perfect investment for college savings,
>
> * income from bonds is exempt from state and federal taxes,
>
> * a bonus coupon may be paid at maturity if a member of the bondholder's family enrolls in an in-state public or private college,

* creates the Illinois College Savings Plan Advisory Board with various duties related to assisting and advising the Bureau of the Budget on the marketing of College Savings Bonds. The Board is also required to review other advance tuition payment programs and report to the General Assembly by June 1, 1988.

* provides that the first $25,000 of College Savings Bonds purchased shall not be considered when determining the financial need for a student applying for financial aid for college costs, and

* requires the Board of Higher Education and Illinois State Scholarship Commission to develop a college cost information program.

Fiscal Impact

In FY 1988 there is no fiscal impact on the State from this bill. In subsequent years the cost to the state would be as follows:

Additional Cost per year per $100 mil of bonds sold

**Bonus coupon of 0 - .25%	0-$250K
**Loss of State Income Tax on accrued interest paid on bonds	$175K

The costs of issuance for the sale of bonds (paid from bond funds) would increase to fund the advertising and marketing costs associated with the sale of zero coupon bonds to individuals.

Summary

Senate Bill 875 should be approved by the Governor for the following reasons:

1. Of the four bills it is the best version authorizing the College Savings Bond Program.

2. The bill has minimal fiscal impact on the state.

3. The bill has bipartisan sponsorship.

4. It effectively creates a new program to assist parents to save for college. It is free of the problems associated with other prepaid tuition programs.

Senate Bill 02

Senate Bill 02 creates the Baccalaureate Savings Act. This is a significantly altered version of the College Savings Bonds program that has technical problems and substantial fiscal impact on the state.

This bill has the following weaknesses in comparison to SB 875:

** The bill creates the Baccalaureate Trust Authority which has powers related to the sale of bonds that are greater than the advisory board contained in SB 875. For example, the bill states that the bonds may be sold "in such manner as may be determined by the Governor and Director of the Bureau of the Budget upon the advice of the Authority." Because this language is written directly into the bonding authorization, the legality of the bonds would be jeopardized if the advice of the Authority differed from the intended manner of sale of the bonds by the Governor and Director of the Bureau of the Budget. This language is not included in SB 875.

** The bill contains inconsistencies. For example, Section 4 of the bill states that interest on bonds may be paid "at such time or times" as may be determined by the Governor and Director of the Bureau of the Budget upon the advice of the Authority. The last sentence of the same section states the bonds issued under the Act "shall be payable in one payment on a fixed date" unless the Governor and Director of the Bureau of the Budget, upon the advice of the Authority determine otherwise.

** The bill mandates that the bonds include an interest rate that is .25% higher than bonds which are not used for higher education purposes and supplemental payments to bondholders that are applied to tuition costs at in-state institutions. This language is difficult to interpret and goes beyond the "bonus coupon"

concept in the original College Savings Bond program.

** Provides a direct state income tax deduction for amounts paid for purchase of College Savings Bonds. Assuming $100 million of bonds are sold in the first year, this provision will result in a loss of $2.5 million of state income tax. Also, the direct tax deduction will generate heavy demand for the bonds from upper middle income individuals wishing to reduce their tax burden. It will be difficult to develop a marketing program that prevents these individuals from monopolizing the purchase of the bonds. The intended purpose of College Savings Bonds was to provide a good distribution of the bonds to middle income parents.

** The bill instructs the Authority to provide other investment alternatives to parents but fails to identify these alternatives.
Fiscal Impact

The bill would have the following fiscal impact.

** Bonus coupon .25%-.5%	$150K-$500K per yr.
** Loss of State Income tax	$2,500,000
** Loss of State Income tax on accrual of interest paid	$175K per year

Summary

Senate bill 02 tries to enhance the College Savings Bond Program by including greater financial reasons for an individual to purchase the bonds. These incentives substantially increase the fiscal impact of the program and make it more difficult to administer. I believe the program will be very attractive to Illinois parents without these added incentives. I recommend the Governor veto Senate Bill 02. (Gallagher, 1987, pp. 2-4)

Mr. Gallagher's analysis was the only bill analysis that contained a strong recommendation to adopt a particular bill. It was also unique because strong

distinctions were made between Senate Bill 02 and Senate Bill 875. In other analyses the similarities between those two bills were noted.

Sources close to the governor's office believed that the reason for the strong lobbying in support of Senate Bill 875 was because Senate Bill 02 gave a great deal of oversight power and authority to the Baccalaureate Trust Authority. Those sources believed that the First Bank of Chicago personnel anticipated the bank would be selected as lead underwriter, and they objected to any interference in the future management of bond sales. Furthermore, they believed that the issue of smaller bond denominations was gaining momentum and that the Authority might be able to direct the Bank as lead underwriter to issue bonds in denominations smaller than $5,000. The sale of such bonds would yield less profit for retailers, and the First Bank of Chicago opposed the small denomination alternative. The intent of Senator Aldo DeAngelis, author of Senate Bill 02, was to give the Authority some power. The opposition to the bill by the First Bank of Chicago was viewed by many interviewees as the bank's perception that Senate Bill 02 diluted the power of the lead underwriter.

The First Bank of Chicago representatives not only lobbied for a particular bill, they also lobbied for who would fill the lead underwriter position. During the time that legislation was being considered, the bank's lobbying

efforts increased. First Bank of Chicago representatives sponsored a recreational trip to a major league baseball game and dinner for members of the Bureau of the Budget, members of the Illinois Board of Higher Education, members of the Governor's office, and their guests in the city of Chicago. A dinner party for those same people followed. Other examples of the bank's lobbying effort were found in memos circulated during that period. In a memo to the Governor, an aide said that Mark Gallagher was pushing for management (another way of saying lead underwriter) and said that he (Gallagher) would ensure that Illinois would be the first state to implement [a college savings bond program]. That aide was visited by Mr. Gallagher numerous times during this period and was included in the recreational events sponsored by the First Bank of Chicago.

Another memo from a bureau chief to the Governor recommended selection of the First Bank of Chicago as lead manager (lead underwriter) because it had helped develop the program and suggested that selection for that reasoning followed industry standards. That bureau chief had been visited many times by Gallagher during this period and was included in the recreational events sponsored by the First Bank of Chicago. In another memo to the Governor from another bureau chief, he recommended the First Bank of Chicago as lead underwriter and

encouraged the Governor to sign whichever of the three bills that First Bank would be most comfortable in administering. That bureau chief also was visited by Gallagher many times during this period.

The analyses from the Governor's aides contained summaries of the analyses as well as a list of options available to the Governor. An option listed was accompanied by a list of consequences. Two analyses prepared by aides said that some agreement would have to be reached in order to give due credit to the sponsors of Senate Bill 02 and Senate Bill 875. Several options were presented that contained ways in which the Governor could veto a particular bill but simultaneously recognize the sponsors. Meetings were arranged, after the submission of all of the analyses, between the Governor and the sponsors of the four bills.

Governor's Decision

Between the spring and fall legislative sessions, the Governor decided to veto Senate Bill 17, House Bill 180, Senate Bill 875, and use his amendatory veto power to modify Senate Bill 02. Senate Bill 02 as amended limited the powers of the Baccalaureate Trust Authority, made technical changes to the incentive payment, prohibited profit proprietary schools from inclusion as eligible institutions, changed the joint venture college cost program to an Illinois Board of Higher Education

responsibility rather than an Illinois State Scholarship Commission responsibility, and altered slightly the tax provisions. The bill emerged with a new set of sponsors.

When presented to the legislature during its Fall, 1987, session, the amended bill's sponsors were Senator Aldo DeAngelis, Republican - Olympia Fields; Senator Joyce Holmberg, Democrat - Rockford; Senator Earlean Collins, Democrat - Chicago; and Representative Helen Satterthwaite, Democrat - Champaign. The compromise had been reached and the primary sponsor of each of the four bills was included as a co-sponsor of the amended bill.

The amended bill easily passed through the Senate in the fall legislative session, but some debate on the floor of the House of Representatives was recorded on November 4, 1987.

> Representative John O'Connell, Democrat - Willow Springs, said this:
>
> One concern that I had was the minimum investment. As I understood the . . . Madam Speaker, could I have order? (Pause) If I understand the proposal, that the minimum investment was at a $5,000 level. Is that still the case as the bill stands now?
>
> Representative Gene Hoffman, Republican - Elmhurst, who had opened the discussion by explaining the amendatory changes, replied,
>
> Thank you for that question, Representative. There . . . no minimums have been set in the legislation. Those will be set in the legislation. Those will be set by the Governor and the Bureau of the Budget consistent with the circumstances.
>
> Representative O'Connell said,

All right. So the level of minimum determination will be made by regulatory, as opposed to legislative?

Hoffman said,

Yes sir, and that . . . what does is, it gives us a . . . some flexibility over time.

O'Connell said,

Flexibility. Well, in that regard, I would just like to set forth in terms of a legislative record that the purpose for the prepaid tuition concept was to benefit those middle income families that are in most need of the . . . of the savings benefits so that they can put their kids through college. And that if we set a level that's too high, which I think $5,000 increments may be too high, we are ignoring those families that we are in most need of helping. So Representative, I hope you would share my concerns in terms of setting a legislative direction for the regulatory determinations. Let's keep those levels at a point where we can satisfy the most middle income families.

Hoffman replied,

Thank you, Representative. I'm certain that the Authority and, as they give advice and counsel to the Governor and the Bureau of the Budget, that certainly has to be part of the discussion, because I think that you are absolutely correct.

(Transcripts of Floor Discussion, Senate Bill 02, 1987)

The discussion ended, there was a motion to accept the bill as amended by the Governor, and the House voted unanimously in favor of the motion to adopt Senate Bill 02 as amended. The idea now had been translated into a bill, and the bill had become law. The legislature moved on to other matters, and the implementation of Senate Bill 02,

which was now Public Act 85-939, became the responsibility of the Bureau of the Budget and the Governor's Office.

CHAPTER 4
PROGRAM IMPLEMENTATION/FIRST BOND SALE

Baccalaureate Trust Authority

Membership Criterion and Responsibilities

As a result of the passage of Illinois Public Act 85-939, The Baccalaureate Trust Authority was created. Membership criterion and the responsibilities of the Baccalaureate Trust Authority were clearly described in Chapter 144, Paragraph 2411 of Public Act 85-939:

> There is hereby created the Baccalaureate Trust Authority. The Authority shall consist of 13 members, 8 of whom shall be appointed as follows: the Minority Leader, the Speaker of the House, and the President and Minority Leader of the Senate shall each appoint one; the Governor shall appoint four. The Treasurer of the State, the Executive Director of the Illinois Board of Higher Education, the Executive Director of the Illinois State Scholarship Commission, the Director of the Bureau of the Budget, and the Director of the Illinois Economic and Fiscal Commission, or their respective designees shall each be a member. The Governor and legislative leaders shall give consideration to selecting members that include representatives from the following categories: an institution of higher education; a person having a favorable reputation for skill, knowledge, and experience in the field of state and municipal finance, either as a partner, officer or employee of an investment banking firm which originates and purchases state and municipal securities, or as an officer or employee of an insurance company or bank whose duties relate to the purchase of state and

municipal securities as an investment and to the management and control of a state and municipal securities portfolio, and a person experienced in and having a favorable reputation for skill, knowledge, and experience in the field of state and municipal finance, either as a partner, officer or employee of an investment banking firm which originates and purchases state and municipal securities, or as an officer or employee of an insurance company or bank whose duties relate to the purchase of state and municipal securities as an investment and to the management and control of a state and municipal securities portfolio, and a person experienced in and having a favorable reputation for skill, knowledge, and experience in the higher education loan finance field. The Board of Higher Education representative shall serve as the chairman. The appointed members of the Authority first appointed shall serve for terms expiring. . . . The Authority shall meet at least annually. The authority shall have the following responsibilities:

1. To make recommendations to the Bureau of the Budget regarding the marketing of College Savings Bonds to ensure their broad distribution throughout the State for educational purposes;

2. To advise the Bureau of the Budget on an effective advertising campaign to inform the general public about College Savings Bonds and their availability;

3. To advise the Governor and the Director of the Bureau of the Budget regarding the increments in which to market the bonds and recommend maturity dates which will make funds available to purchasers at the time when such funds are needed for educational purposes;

4. To advise the Governor and Bureau of the Budget regarding additional financial incentives as provided in this Act;

5. To advise the Bureau of the Budget on limits that may be imposed on the amount of College Savings Bonds that may be purchased by individual households;

6. To advise the Bureau of the Budget on the minimum denominations to market the College

Savings Bonds so that they are affordable by individuals;

7. To evaluate the feasibility of staggered or periodic forms of payments for College Savings Bonds and to advise the Bureau of the Budget regarding such evaluation;

8. After the initial sale of College Savings Bonds, to assess the effectiveness of the program and recommend constructive changes to the Bureau of the Budget regarding future bond sales;

9. To study and review alternative investment instruments with respect to their suitability for a college savings program. (State of Illinois, 1987a)

Members of the Governor's staff who wrote the draft language for the amended bill attempted to articulate the responsibilities of the Baccalaureate Trust Authority clearly and to satisfy those people from the Bureau of the Budget who noticed technical ambiguities in the language of the bill. They also attempted to maintain the authority of the Baccalaureate Trust Authority as was originally intended. This consideration satisfied most people associated with the bill. Representatives from the First Bank of Chicago continued to lobby for language that minimized that authority. In the end, the language was not significantly changed from the language in the original bill.

<u>Members</u>

Selection of the Governor's four appointees was viewed with great interest from many people involved up to

that point. The bank representatives wanted no interference from overzealous Authority members and nominated potential members that they felt would not interfere. Staff members of the Illinois Board of Higher Education, aides to the Governor, and staff members of the Bureau of the Budget also submitted the names of potential candidates. Criteria not required by law also were considered. The appointees would represent all parts of the state and would be required to pass routine record-checks made by the legal staff of the Governor's office. The record-checks were customary for all political appointees. From those nominations, the list was pared and the Governor made appointments.

The responsibility for the program had moved from the higher education community and the legislative branch of state government to the Governor, the Bureau of the Budget, the private sector financial community, and the Baccalaureate Trust Authority. Staff members of the Illinois Board of Higher Education remained involved, especially in matters related to the Baccalaureate Trust Authority. There was discussion among First Bank of Chicago representatives, aides from the Governor's Office, and staff members of the Illinois Board of Higher Education about the appointees, the Authority's level of involvement, and whether it would meet before the first bond sale. The sale was scheduled to occur in either

December 1987 or January 1988. The opinion of First Bank of Chicago representatives was that a meeting prior to the sale should not be held. It was the opinion of aides from the Governor's Office and staff members of the Illinois Board of Higher Education that a meeting should be held prior to the first bond sale, but that it might be difficult to confirm appointments and convene in the short amount of time before the sale.

The first meeting of that body was held on April 7, 1988, three months after the first bond sale. The meeting served primarily as an orientation for the new members. Consequently, the first sale of college savings bonds in Illinois and decisions related to that sale were directed by the Bureau of the Budget and the First Bank of Chicago, managing underwriter for the sale.

The Authority met again in August 1988, one month prior to the second sale of the Illinois College Savings Bonds. It was at that meeting that the group discussed the outcomes of the first bond sale. Prior to the second sale of the bonds the group prepared no recommendations nor did they advise the Governor or the Bureau of the Budget (Illinois Board of Higher Education, 1988).

Distribution Network for Bond Sales

Selection of First Bank of Chicago

First Bank was chosen as lead underwriter for the first issue of the Illinois College Saving Bonds. No bid

process was utilized in the procurement of those underwriting services. That decision was made by the representatives of the Bureau of the Budget and representatives from the Governor's office. Executives from four other financial institutions expressed concern during interviews for this study about the fairness of the decision. No evidence was found to substantiate or refute those opinions.

First Bank of Chicago had the prerogative, as managing underwriter, to select the other members of the selling group and to distribute the bonds prior to the sale among that group. They chose Merrill Lynch Capital Markets, Dean Witter Capital Markets, Edward D. Jones & Co., Blunt Ellis and Loewi, A. G. Edwards & Sons, Inc., and Shearson Lehman Brothers, Inc. Although First Bank of Chicago had no legal restrictions on that distribution, they were under pressure from state officials to distribute in a manner that ensured bond availability in every corner of the state and to all citizens. State officials believed that equal access to the college savings bond program might be compromised because First Bank of Chicago was located in Chicago. Historically, downstate Illinoisans have perceived an unequal distribution of political and economic support for the Chicago area. Therefore, state officials feared negative press and political backlash if the bonds were not equally

distributed. In response to those concerns, First Bank of Chicago set up a toll-free telephone number to the bank's bond department in Chicago. They included brokerage firms in the selling group that had regional offices in downstate areas. They advertised in newspapers in all parts of the state, and they included a second tier of the selling group. That second tier consisted of their 200+ correspondent banks that were located in all parts of the state. To some, this appeared to be a good faith effort on the part of the First Bank of Chicago, for there were no reporting requirements nor were they bound by law in the distribution of the bonds for sale. Sources close to the process described this not as a good faith effort but rather as a lobbying strategy designed to guarantee their future selection as managing underwriter in subsequent bond sales.

In order to locate future purchasers of the bonds for study purposes of this study, it was necessary to track the distribution of the bonds after the sale. No other documentation exists that describes the distribution of bonds. First Bank of Chicago representatives refused to provide information about the number of bonds distributed to each selling group member and refused to provide the number of bonds they kept to sell through their own brokerage floor. Consequently, it was necessary to contact the Regional Managers from the six other members

of the selling group to obtain those data. Each Regional Manager and/or Municipal Bond Department Vice President was interviewed and the data were obtained. These data included detailed information about their in-house distribution and the number of bonds sent to each of their regional offices.

When these data were presented to a First Bank of Chicago representative, he confirmed that the number of bonds unaccounted for (the total number available minus the aggregate number accounted for through Regional Manager interviews) was the correct number sold through brokers from the First Bank of Chicago. He also provided the number of bonds that were distributed through the correspondent banks. There were 43,800 bonds available. That number was determined by the Bureau of the Budget of the State of Illinois, and was based on the revenue needed by the State for capital projects at that time and on acceptable future debt service for the state. The six selling brokerage houses received 3,500 bonds each representing 48% of the total number of available bonds. The correspondent banks received 8,760 bonds, or 20% of the total number of available bonds. First Bank of Chicago sold 14,040 bonds, or 32% of the total number of available bonds in the first sale.

Regional Managers from Merrill Lynch Capital Markets, Edward D. Jones, Blunt, Ellis, and Loewi, and Shearson,

Lehman Brothers, Inc. expressed anger and dismay over the manner in which the bonds were distributed and felt that First Bank had invited them to take the risk early on when the popularity and marketability of the bond issue were questionable. Then, when it became clear that the bonds would be oversubscribed, First Bank cut the selling group members out by allocating to each of them a smaller number of bonds than had been discussed originally. One Regional Manager expressed anger but added that any of the selling group members would do the same if they were in the same position as the First Bank of Chicago. "It's dirty, but it's business," said one Regional Manager. Regional Managers and, in some cases, the Municipal Bond Department Directors of the organizations were asked how they determined the number of bonds which their branches received. There was no pattern to the distribution decisions. For one firm, the bonds were distributed to new offices that needed the bonds to help establish markets in those offices. For another, the distribution was based on the number of indications submitted by individual brokers. (An indication is the number of bonds that the broker expects to sell. The indication is based on the number of clients that have indicated an interest, prior to the selling period. An indication is similar to the number of orders a salesman in another field may receive. Securities Exchange Commission regulations

prohibit bond brokers from accepting actual orders prior to the selling period.) Those indications were inflated in many cases for the purpose of obtaining a larger number of bonds. Another firm distributed the bonds based on in-house decisions that could be described as political. First Bank of Chicago took orders during the sale period, filled no orders until the end of the sale period, then filled every order with at least one bond. An illustration of the distribution network is included in the Appendix B.

Geographic Distribution/Equity

Legislators and state officials were interested in geographical equity, and data provided by each of the Regional Managers made it possible to measure geographic distributions. First, the state was divided arbitrarily into four somewhat equal regions along county lines. A map illustrating that division is included in the Appendix C. Population data (U.S. Census Bureau, 1986) were compiled to show the percent of the Illinois population residing in each of the four areas of the state. The percent of the total number of bonds distributed to each of the four areas of the state was compiled from the data provided by the Regional Managers of the selling group. A simple comparison of the percent of the Illinois population residing in each of the four areas to the percent of the total number of bonds distributed to each

of the four areas was made. The distribution of Illinois College Savings Bonds (first sale of January 1988) parallelled fairly closely the geographic distribution of the state's population. An illustration of that comparison is included in the Appendix D.

<u>Oversubscription</u>

Due to the unanticipated and unprecedented publicity generated by the statewide media, the bonds were oversubscribed three to one overall, and eight to one in some maturities (Gallagher, 1988). These numbers were verified by Mark Gallagher in a report that he prepared on the first sale. These numbers only represent figures from the Bank's orders and not from the other six members of the selling group. The exact amount of oversubscription is difficult to measure for other reasons as well. Many purchasers, in response to the media's report of a bond shortage, placed orders with more than one bank or brokerage firm. Brokers also placed orders with banks for the purpose of obtaining more bonds to satisfy their own client demand. Furthermore, brokers in some firms' branch offices inflated their indication numbers to regional offices in order to obtain the largest possible number of bonds to sell to their clients. In many instances, brokers stopped taking orders because the demand was so great. Finally, record-keeping practices in this area differed from firm to firm, and some firms kept no records

of this information. This was particularly true of Shearson, Lehman, Brothers, Inc. Weeks before the sale, Shearson, Lehman, Brothers, Inc. acquired E. F. Hutton, and the reorganization of those firms took place before and during the sale period. Consequently, records of the bond included only sales and not indications of demand.

Publicity

The unprecedented publicity took the financial community, the higher education community, and the government community by surprise. Chicago television and newspaper reporters broke the story first. The media explained the bond issue and predicted a sellout. Friday, January 8, 1988, the headline on the front page of the Chicago Tribune read "College bonds grab investors." Dave Engler, who reported the story, said "Illinois' first state-sponsored bonds to help parents save for the escalating costs of sending their children to college will go on sale Monday, and both bond experts and legislative sponsors of the program said they expect a quick sellout" (Chicago Tribune, 1988, p. 1). Other reports were similar. Potential purchasers were lined up outside the banks and brokerage firms on Monday, the first day of the sale. Callers jammed the telephone lines at the bank, and a record number of calls were received by state agencies from potential purchasers. This response by purchasers created a snowball effect, and news reporters went to

those scenes to photograph and interview potential purchasers as they waited in line. The next day the lines increased. That evening and throughout the week articles appeared in major newspapers in and out of the state (Chicago Sun-Times, 1988; The New York Times, January 1988; The Bond Buyer, January 1988; U.S.A. Today, January 1988; Education Daily, January 1988; St. Louis Post-Dispatch, January 1988; The State Journal Register, January 1988), and the story was picked up by the wire services. Headlines such as "Bond Mania: Buying Stampede for First College Savings Issue" (Chicago Sun-Times, January 1988) and "Tax-Free Savings Bonds Headed for a Sellout" (Springfield Journal-Register, January 1988) seemed to increase the public's appetite for the bonds. None of the principals expected this much media attention but most were grateful for it. To the financial community it was free advertising that resulted in increased business. Many brokers reported that, although they did not have enough bonds to satisfy the requests, they were given the opportunity to counsel potential bond purchasers and fill their investment needs with other financial instruments, particularly U.S. Treasury Bonds. Brokers in small offices across the state utilized the free publicity. They included the words "College Savings Bonds" in their independent advertisements. To the government community it was positive press coverage and

the perceived result, though immeasurable, was positive public perception of the agencies and public officials associated with the program.

The reaction of those in the higher education community was mixed. Some believed that the media attention resulted in a false sense of security on the part of the public about serious issues (rising college costs, increased student indebtedness, etc.). They believed that these issues were not addressed by this overrated savings bond program and might divert attention from issues that had been ignored too long. Some people in the higher education community felt that the positive media attention would mask the flaws in the program, although others believed that the political mileage received by those associated with the program outweighed the merits of the program itself. Finally, there were those who believed that the publicity served as a public awareness campaign and such a campaign was a key feature of the plan.

The negative result of this media attention was the disappointment felt by the many families who were unable to purchase bonds. One broker likened it to a "Cabbage Patch mentality." The scarcity of the bonds created an inflated value and deepened the blow to those unable to procure them. Complaints were registered at brokerage firms, banks, and state agencies by disgruntled, empty-

handed citizens. Other negative results were the confusion caused by some misreports and the inability of brokerage firms and banks to handle the surge of inquiries from potential investors.

A Study of Purchasers

The Illinois College Savings Bond program could not be evaluated in terms of public policy objectives until the question asked so often was answered. "Who will benefit?" Public policy analyses are built on this question, and it was a question asked repeatedly during the conceptualization process. There was some consensus about the question, "Who should benefit?" Most state leaders in higher education and government agreed that low-income citizens were not meant to benefit from this program, and most state leaders agreed that high-income citizens were not meant to benefit from this program. The goal of the program was to benefit middle-income citizens of the State of Illinois. They believed that Illinois citizens should benefit before non-Illinoisans, and that new investors should benefit rather than sophisticated investors. New investors were preferred because the program was seen as a vehicle for saving for those people who would not otherwise or were not otherwise saving for college.

A study of purchasers was conducted as an integral part of this case study. Privacy laws protecting

investors prohibited the collection of any one list of Illinois College Savings Bond investors from the brokers or brokerage firms. Consequently, there was no available population information from which a random sample of purchasers could be drawn. Hence, direct contact with purchasers was not possible. Brokers were required by law to obtain information about potential bond purchasers for the purpose of ascertaining the equitability of the College Savings Bond investment for each purchaser. The brokers' suitability forms were then a source of purchaser information. It is not industry practice to aggregate information from those forms. Therefore, data related to purchasers were collected from brokers through interviews. The brokers relayed information to the interviewer without revealing the name(s) of the particular purchaser(s).

Methodology

From an estimated population of 10,000 purchasers (based on a preliminary estimate by First Bank of Chicago), a 5% random sample (500 purchasers) was taken. The collection methodology was designed to protect the privacy of the purchaser. Interviews with brokers from all areas of the state were arranged. The brokers were selected randomly, and that selection followed the geographic distribution of bonds throughout the state. Therefore, approximately 60% of the sampled brokers were from the Chicago area, 6.2% from the Northern Illinois

area, 7.9% from the Central Illinois area, 1.9% from the Southern Illinois area, 1.9% from out of state brokers, and 22% was selected randomly from throughout the state (see Appendix E). Furthermore, the number of sample sales taken from each of the sampled brokers was based on 5% of the number of bonds sold by that broker. During the interview, brokers were asked to randomly select a client suitability form(s) from their book or pile of forms. Random number tables were used. The broker verbally related the client information to the interviewer who then recorded the information on data sheets. More than 100 brokers were sampled and participated in this study. A list of cities and towns from which samples were taken is included (see Appendix F).

The data items collected for this study included number of bonds purchased, age, sex, county of residence, type of household, occupation, annual income, spouse's occupation, spouse's annual income, net worth, investment history, and investment purpose. These data were the same as those collected by the brokers on suitability forms as prescribed by law. In addition to the purchaser information, information about the broker was collected. The name of the firm, location, number of indications taken by the broker, number of bonds allocated to the broker, and the broker's method of bond allocation to customers was collected. In addition to the collection of

those data items, brokers were informally interviewed and field notes were taken.

Results

Reported incomes of purchasers of Illinois College Savings Bond ranged from $18,000 per year to $528,000 per year and above. Most bond buyers reported incomes in the $48,000 to $108,000 range. Purchasers with a reported annual income between $48,000 and $78,000 comprised approximately 28% of the total. Purchasers with a reported annual income of $78,100 to $108,000 comprised approximately 24% of the total. Approximately 20% of the purchasers had an annual income less than $48,000 and approximately 28% of the purchasers reported annual incomes greater than $108,000. The mean income was $104,000. The median income computed from group data was $86,125. Figure 1 illustrates the frequency distribution of purchasers by income. Chi square tests were conducted and the relationship between income of the purchaser and state zone was not significant. There was a significant difference in the relationship between income of the purchaser and the seller.

More males (77%) than females (23%) purchased the bonds, and about 86% of the bond buyers were married. A large number of buyers were over the age of 55 (27%), although the majority of bond buyers ranged in age from 36 to 45 (39%). Bank personnel have described this group of

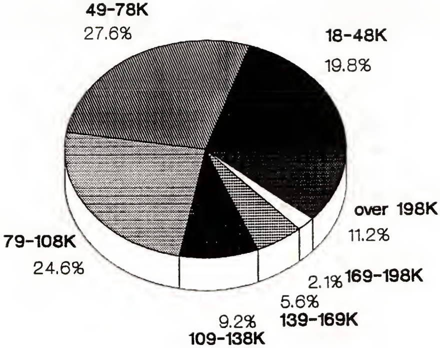


Figure 1. Frequency distribution of purchasers by income.

purchasers as grandparents buying bonds for grandchildren. Many bond brokers described this group as elderly citizens utilizing the tax benefits of this program for retirement savings. There is some evidence of bonds being put in IRA accounts. However, no data exist which prove that these purchasers were or were not grandparents saving for the college costs of their grandchildren.

About one-third of the buyers had no investment history with the firm from which they purchased bonds, one-third of the buyers had limited history with the firm, and one-third had extensive investment history with the firm. The numbers related to investment history may be distorted. The media attention to the sale and the subsequent shortage of bonds caused many buyers with extensive investment histories to shop around for bonds. Consequently those buyers may have been reported as buyers with no investment history.

Of the purchasers, 40% could be described as (a) male, (b) 20-45 years old, (c) married, (d) professional with a professional spouse or professional with a homemaker spouse, and (e) an income equal to or greater than $78,000. Of the purchasers, 25% could be described as (a) over 55 years old and (b) approximately half were male and half were female. Of the purchasers, 50% bought one to four bonds, 28% bought five to eight, and 22% bought nine or more. The average number of bonds purchased by each investor was 5.3.

The results of this purchaser study did not corroborate the results disseminated by First Bank of Chicago analysts. After the first bond sale in January, 1988, they circulated a report of that sale to interested parties. In that report no statistics were presented. Brief anecdotal remarks were made about the sale and its customers. The source of those data has to date not been named. After the second bond sale in October, 1989, First Bank of Chicago disseminated another report which was less anecdotal than the first, was written by statisticians, and documented purchaser characteristics from the population of First Bank of Chicago customers only.

Of 7,000 First Bank customers, a sample of 350 was drawn. From that sample the following conclusions related to purchaser income were drawn: reported income range was from $0 to upwards of $300,000, the average income was $64,060, and the median was $60,000. In that report, First Bank of Chicago analysts acknowledged that these figures were high when compared to 1988 State of Illinois average family income, which was $35,571, and to State of Illinois median income which was $28,461. The analysts concluded that people with incomes of $35,000 and below, who are in a 15% federal tax bracket, would do better to carry long term taxable investments, and Illinois College Saving Bonds are not a suitable investment for these investors.

Two important points can be made from the First Bank of Chicago studies. First, any conclusions drawn from these reports can only be generalized to the population of First Bank of Chicago customers rather than to the entire population of Illinois College Savings Bond purchasers. Second, the report from the October, 1988, sale contained a clear contradiction of intent by stating that Illinois College Saving Bonds are unsuitable for middle-income investors when, in fact, First Bank of Chicago had for more than a year attempted to convince Illinois legislators and Illinois higher education officials that this investment vehicle would be suitable for that particular population.

Conclusions

The principals involved in the conceptualization and implementation of the Illinois College Saving Bond program were higher education leaders, legislators interested in higher education, and members of the for-profit, private sector. Initially, the idea developed as a response to a need articulated by the higher education community. The "middle-income squeeze" described earlier in this paper created a situation whereby financial access to higher education was decreasing. The Illinois College Saving Bond program was initially developed by higher education leaders for the purpose of meeting the needs of middle-income families in Illinois preparing to pay for future

college costs. The Illinois legislators philosophically supported the program for that purpose and financially supported the program by legislating exemption from state tax for the program. However, because of the need for investment expertise, the private sector became involved. Their involvement increased substantially throughout the process. In the end, the direction and implementation of the program were controlled primarily by personnel from First National Bank of Chicago. These were people whose interests were less motivated by the needs of middle-income citizens and more motivated by profit margins.

Furthermore, the private sector principals, with their considerable resources, were able to influence the process and effect change. Their ability to mobilize resources quickly, to initiate an effective lobbying effort, and to shepherd the idea through state government was seen by higher education leaders as positive. Higher education leaders allowed and encouraged the shift in control of this program from the public sector to the private sector. This occurred partly because of the ability of the private sector to act.

The policy objectives of all the principals seemed congruent in the early stages of development. Meeting the needs of middle-income families saving for college was the policy objective and it is well documented through public record. At some mid-point in the process, however, a

subtle division of objectives was observed. During interviews for this study midway through the process, some legislators and higher education leaders expressed skepticism about the true objectives of the private sector. After the second Task Force meeting, when the topic of minimum-bond denomination was raised, several people expressed dismay over what appeared to be a hidden agenda on the part of private sector members. Nevertheless they expressed helplessness and loss of empowerment. Some indicated the plans were too far along to be changed. Others tried to regain control by changing parts of the legislation related to the oversight board. The differences in policy objectives that were never fully or publicly expressed were never resolved. In the end, it appeared the private sector profit objectives superseded those of the public sector.

There were many outcomes of the first college savings bond sale in Illinois. Unexpected media attention created a public awareness about the need for saving for college. Brokers reported a great increase in the number of inquiries they received about college savings plans. Bond purchasers from all parts of the state participated in this first sale, and some of those purchasers indicated an intent to use the bond proceeds to pay college costs. A significant outcome was the inability of the Illinois College Savings Bond principals to reach the target

population through this new program. Middle-income families did not significantly participate in the first Illinois College Savings Bond sale, as shown by the results of this study. In fact, while middle-income definitions range from $25,000 per year to $36,000 per year only 19.8% of ICSB purchasers reported incomes that included that range. Of ICSB purchasers, 27.6% reported incomes of $49,000-$78,000 annually, 24.6% reported annual incomes of $79,000 to $108,000, and 28% of the purchasers reported annual incomes greater than $108,000. The mean income of this purchaser group was $104,000 per year and the median income was $86,125 per year. Although this is primarily a study of the first sale, evidence exists from subsequent sales that corroborates this finding.

This program and the process by which it became law has already served as a model for other states initiating programs to meet the needs of middle-income families saving for college. As of November, 1989, 19 other states had enacted similar legislation, and 12 states had sold bonds. However, only Connecticut had conducted a limited study of purchasers, and to date no other study of purchasers has been conducted comparing outcomes to policy objectives. A position paper published in January 1990 contained a strong warning to states considering college savings bond programs. In that paper Richard Anderson suggested that such programs are designed for financing

capital projects, not saving for college; that the states objectives in such programs are in conflict with the bond purchasers objectives; and that the rate of return does not best serve the needs of the saver. Furthermore, Anderson acknowledged the investment banker's role in pursuading states to pursue such plans and attributed that persuasiveness to profit motives (National Center for Postsecondary Governance and Finance, 1990).

Questions for Further Study

The rapid growth of programs like the Illinois College Savings Bond program leads many to believe that the program was an unqualified success. However, this study raises questions about that success. Further study of program outcomes is necessary to either negate or support this researcher's findings.

More importantly, however, the question of public-private partnership success is raised. Can the private sector be integrally involved in areas where public policy objectives must supersede private sector objectives? Was the nonparticipation of the target population of purchasers related to the differences in policy objectives between the private and public sector principals? Finally, should this program be replicated as is or should states reevaluate its effectiveness in meeting the stated public policy objectives?

APPENDIX A
STATES THAT HAVE APPROVED COLLEGE SAVINGS BONDS

Arkansas (3/89), tax-exempt bonds
Colorado (4/88), tax-exempt bonds
Connecticut (7/88), tax-exempt bonds
Delaware (7/88), tax-exempt bonds
Hawaii (11/88), tax-exempt bonds
Illinois (9/87), tax-exempt bonds
Iowa (5/88), tax-exempt bonds
Kentucky (4/88), college savings fund plus an endowment fund
Louisiana (6/89), tax-exempt bonds
Missouri (6/88), tax-exempt bonds
New Hampshire (6/89), tax-exempt bonds
North Carolina (7/87), tax-exempt bonds
North Dakota (4/88), tax-exempt bonds
Ohio (7/89), tax-exempt bonds
Oregon (7/89), tax-exempt bonds
Rhode Island (6/88), tax-exempt bonds and state tax-free educational savings accounts
Tennessee (4/89), tax-exempt bonds
Virginia (4/88), tax-exempt bonds
Washington (3/88), tax-exempt bonds

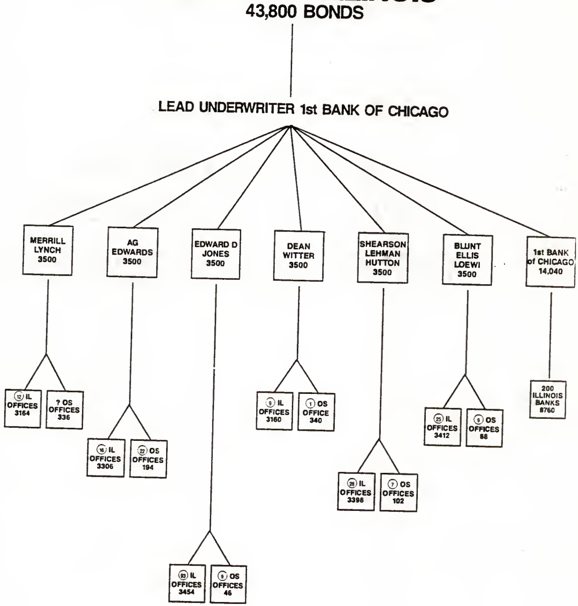
Of the states listed above, these have conducted at least one bond sale as of September, 1989:

Connecticut (12/88)
Delaware (5/89)
Hawaii (11/88)
Illinois (1/88)
Iowa (10/88)
Missouri (1/89)
North Carolina (8/87)
North Dakota (5/88)
Oregon (5/88)
Rhode Island (4/89)
Virginia (6/89)
Washington (9/88)

(Education Commission of the States, 1989)

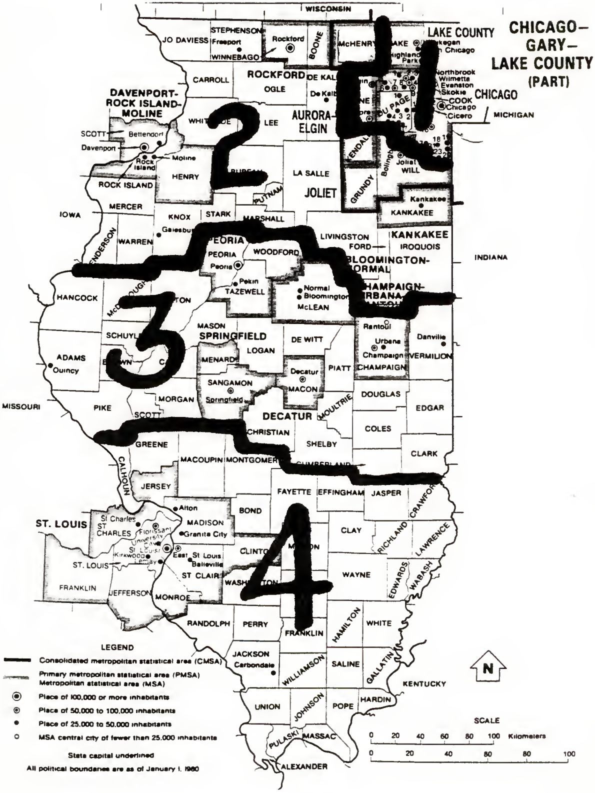
APPENDIX B
STATE OF ILLINOIS BOND DISTRIBUTION NETWORK

STATE OF ILLINOIS



	% OF TOTAL SOLD THROUGH IL OFFICES	% OF TOTAL SOLD THROUGH OUT OF STATE OFFICES
ML	90.4%	9.6%
AGE	94.5%	5.5%
EDJ	98.7%	1.3%
DW	90.3%	9.7%
SLH	97.1%	2.9%
BEL	97.5%	2.5%

APPENDIX C
STATE OF ILLINOIS STATE DIVISION FOR BOND SALES


CHICAGO-
GARY-
LAKE COUNTY
(PART)
LAKE COUNTY
CHICAGO
DAVENPORT-
ROCK ISLAND-
MOLINE
ROCKFORD
AURORA-
ELGIN
JOLIET
PEORIA
KANKAKEE
BLOOMINGTON-
NORMAL
CHAMPAIGN-
URBANA-
SPRINGFIELD
DECATUR
ST. LOUIS
WISCONSIN
IOWA
MISSOURI
INDIANA
MICHIGAN
KENTUCKY
JO DAVIESS
STEPHENSON
WINNEBAGO
BOONE
McHENRY
CARROLL
OGLE
LEE
HENRY
ROCK ISLAND
MERCER
KNOX
STARK
MARSHALL
WARREN
WOODFORD
LIVINGSTON
FORD
IROQUOIS
HANCOCK
TAZEWELL
McLEAN
MASON
SCHUYLER
ADAMS
MENARD
LOGAN
DE WITT
SANGAMON
MACON
PIATT
CHAMPAIGN
VERMILION
DOUGLAS
EDGAR
MORGAN
PIKE
SCOTT
CHRISTIAN
SHELBY
COLES
CLARK
GREENE
MACOUPIN
MONTGOMERY
CALHOUN
JERSEY
FAYETTE
EFFINGHAM
JASPER
BOND
MADISON
CLAY
RICHLAND
LAWRENCE
WAYNE
EDWARDS
WABASH
ST CLAIR
MONROE
RANDOLPH
PERRY
FRANKLIN
HAMILTON
WHITE
JACKSON
WILLIAMSON
SALINE
GALLATIN
UNION
JOHNSON
POPE
HARDIN
PULASKI
MASSAC
ALEXANDER
ST. LOUIS
ST CHARLES
FRANKLIN
JEFFERSON
SCOTT
KANKAKEE
WILL
GRUNDY
LA SALLE
Freeport
Rockford
De Kalb
Bettendorf
Davenport
Rock Island
Moline
Galesburg
Peoria
Pekin
Normal
Bloomington
Rantoul
Urbana
Champaign
Danville
Decatur
Springfield
Quincy
Alton
Granite City
East St Louis
Belleville
St Charles
Florissant
University City
St Louis
Kirkwood
Lemay
Carbondale
Joliet
Kankakee
Waukegan
North Chicago
Highland Park
Northbrook
Wilmette
Evanston
Skokie
COOK
Chicago
Cicero
LEGEND
Consolidated metropolitan statistical area (CMSA)
Primary metropolitan statistical area (PMSA)
Metropolitan statistical area (MSA)
Place of 100,000 or more inhabitants
Place of 50,000 to 100,000 inhabitants
Place of 25,000 to 50,000 inhabitants
MSA central city of fewer than 25,000 inhabitants
State capital underlined
All political boundaries are as of January 1, 1980
N
SCALE
0 20 40 60 80 100 Kilometers
0 20 40 60 80 100
1
2
3
4

APPENDIX D
COMPARISON OF STATE POPULATION AND SAVINGS BONDS SOLD BY AREA

	Percent of Illinois Population	Percent of Illinois College Savings Bonds Sold (1st Sale, January, 1988)
Area 1	59.0%	60.0%
Area 2	15.6%	6.2%
Area 3	13.8%	7.9%
Area 4	11.6%	1.9%

*22% of bonds unable to be traced

*1.9% of bonds sold through non-Illinois brokers

APPENDIX E
ILLINOIS COLLEGE SAVINGS BONDS SOLD OUT OF STATE

Of the total number of bonds, 1.9% were sold by brokers outside of Illinois and some of the locations of those brokers are listed below:

Prescott, Arizona
Scottsdale, Arizona
Chico, California
Los Angeles, California
Walnut Creek, California
Denver, Colorado
Clearwater, Florida
Sarasota, Florida
Fort wayne, Indiana
Merrillville, Indiana
Michigan City, Indiana
Munster, Indiana
Nappannee, Indiana
Terre Haute, Indiana
Davenport, Iowa
Dubuque, Iowa
Waterloo, Iowa
Kansas City, Kansas
Baltimore, Maryland
Midland, Michigan
Port Huron, Michigan
Chesterfield, Missouri
Frontenac, Missouri
Hannibal, Missouri
St. Louis, Missouri
Maryland Heights, Missouri
Lincoln, Nebraska
Omaha, Nebraska
Portsmouth, New Hampshire
Millburn, New Jersey
New York, New York
Waynesville, North Carolina
Bowling Green, Ohio
Dayton, Ohio
Columbia, South Carolina
Pierre, South Dakota
Salt Lake City, utah
Walla Walla, Washington
Deloit, Wisconsin
Eau Clair, Wisconsin
Green Bay, Wisconsin
Madison, Wisconsin
Milwaukee, Wisconsin

APPENDIX F
ILLINOIS CITIES/TOWNS SAMPLED

Chicago	Belleville
Carbondale	Canton
Aurora	Champaign
Barrington	Charleston
DeKalb	Effingham
Elgin	Decatur
Hinsdale	Mattoon
Joliet	Kankakee
Matteson	Moline
Naperville	Paris
Oak Brook	Peoria
Oak Lawn	Quincy
Rockford	Rock Island
Schaumburg	Tuscola
Skokie	Sterling
Western Springs	

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BIOGRAPHICAL SKETCH

Kristine Kiefer Mackey was born in 1956, the second eldest of six children. She was raised primarily in Joliet, Illinois, where she completed elementary and secondary school. Though she attended Western Illinois University as an undergraduate, she received a Bachelor of Science degree in elementary education and health education from the University of Nebraska at Omaha in 1979. During her employment with Creighton University in the Division of Student Services she attended graduate school and received a Master of Science degree in student personnel services in 1982. In May, 1990, Kristine received the Doctor of Philosophy degree with a major in educational leadership from the University of Florida.

Kristine K. Mackey resides in Oak Park, Illinois, with her husband Mark L. Mackey, M.D., and their four children, Marc, age 16; Kathryn, age 9; Erin, age 8; and Justine, age 7. She is currently employed by the State of Illinois at the Illinois Student Assistance Commission and is working on the development of two new programs to increase financial assistance to middle-income families.

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

James E. Heald

James E. Heald, Chairman
Professor of Educational Leadership

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

C. Arthur Sandeen

C. Arthur Sandeen
Professor of Educational Leadership

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

Rodman B. Webb

Rodman B. Webb
Professor of Foundations of Education

This dissertation was submitted to the Graduate Faculty of the College of Education and to the Graduate School and was accepted as partial fulfillment of the requirements for the degree of Doctor of Education.

May, 1990

David C. Smith

Dean, College of Education

Dean, Graduate School